

6 February 2024

BSE Sensex: 72186

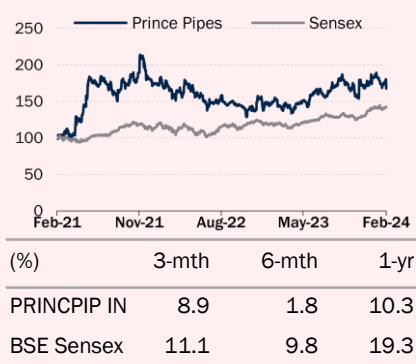
Sector: Home Improvement

Stock data

CMP (Rs)	674
Mkt Cap (Rs bn/USD m)	74.5 / 897
Target Price (Rs)	750
Change in TP (%)	(11.2)
Potential from CMP (%)	11.4
Earnings Change (%)	
FY24E	(14.8)
FY25E	(12.1)
FY26E	(15.3)

Bloomberg code	PRINCIPI IN
1-yr high/low (Rs)	776/532
6-mth avg. daily volumes (m)	0.4
6-mth avg. daily traded value (Rsm/USDm)	251.1/3
Shares outstanding (m)	110.6
Free float (%)	39.1
Promoter holding (%)	60.9

Price performance – relative & absolute



Q3FY24 Result Highlights

- **Pipes:** Volume - 2% yoy drop (peers ASTRA/SI +15% / APOLP +5% / FNXP -10%) impacted by weak retail sales sentiment. Market share (lost over H1) recovery still not visible. 10% yoy realization drop a function of both polymer prices and price corrections taken selectively where PRINCIPI was outpriced w.r.t. peers.
- **EBITDA:** 12.2% (vs 9.8% yoy / 14.3% qoq) – op. deleverage; inventory loss impact at ~Rs100m.
- **Key Call Takeaways:**
 - **Pricing corrections driving vol. underperformance:** ‘Over-premiumization’ in certain markets vis-à-vis peers has driven market-share loss. Working to correct this and expect to grow in-line (or beat) industry by Q1FY25E.
 - **Channel inventory moderate:** No immediate destocking/restocking expected soon as PVC prices expected to remain stable/range bound.
 - **Bathware to breakeven in 6 quarters time:** Q3 rev/opex (ex. COGS) at Rs60m/30m respectively (EBITDA loss undisclosed). As business expands into East/South and COCO store additions, opex cost to rise beyond the guided ~Rs200m but expect overall segment to break-even in 6 quarters.

Key Negatives: Weak vol. growth (market share loss not recouped)

Impact on financials: ~15%/~12%/15% cut in FY24E/FY25E/FY26E EPS.

Valuations & View

PRINCIPI's 9MFY24 volume growth of ~7% lags comparable peers by a mile (vol. growth range 25-30%) and this is after its receivable cycle stretching to ~73 days (vs 56 in FY23) – a worrisome combination. While we do expect volume to recover in the coming quarters (est. ~21% CAGR over FY24E-26E) and margins to improve in-line with mix/utilization improvement, achieving this with receivables coming down would be a tall task even for a challenger like PRINCIPI (even with channel financing extension to its channel which is an ongoing project currently). The only positive here is that the rise in receivables (and accordingly net working capital) has not driven a rise in debt. While we retain our BUY rating given the stock price correction (TP Rs750 / 25x FY26E P/E vs 27x earlier), growth and WC movement would be keenly eyed by us (and the markets).

Key valuation metrics

Year to 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Net sales (Rs m)	26,568	27,109	25,531	33,002	40,115
EBITDA (Rs m)	4,156	2,503	3,128	4,455	5,616
Adj. net profit (Rs m)	2,494	1,214	1,630	2,554	3,310
Adj. EPS (Rs)	22.6	11.0	14.7	23.1	29.9
% change	12.3	(51.5)	34.2	56.8	29.6
PE (x)	29.8	61.3	45.7	29.2	22.5
Price/ Book (x)	5.9	5.5	4.9	4.3	3.8
EV/ EBITDA (x)	18.1	29.1	23.5	16.7	13.2
RoE (%)	21.6	9.2	11.3	15.8	18.1
RoCE (%)	26.6	11.6	14.1	19.0	21.9

Source: Company, DAM Capital Research

Aasim Bharde, CFA

aasim@damcapital.in

+91 22 42022576

Exhibit 1: Quarterly Results Snapshot

(Rs m)	Q3FY23	Q2FY24	Q3FY24	QoQ (%)	YoY (%)
Pipes & Fittings:					
Volume ('000 MT)	43.7	41.5	42.7	2.7	(2.4)
Realisation (Rs/kg)	161.6	158.1	145.0	(8.3)	(10.3)
EBITDA (Rs/kg)	15.9	22.7	17.7	(21.8)	11.5
Consolidated P&L items:					
Revenue	7,059	6,565	6,186	(5.8)	(12.4)
EBITDA	695	942	757	(19.7)	8.9
Margin (%)	9.8	14.3	12.2		
PAT	354	527	376	(28.6)	6.3
Margin (%)	5.0	8.0	6.1		

Source: Company, DAM Capital Research

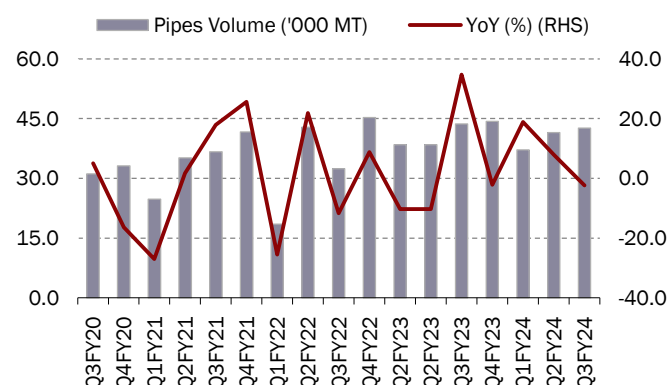
Exhibit 2: Quarterly Financials (Detailed)

(Rs m)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Comments
Total Revenue	6,365	7,059	7,644	5,536	6,565	6,186	2% drop in vol. yoy
YoY (%)	(16.4)	6.3	(15.2)	(8.4)	3.1	(12.4)	
QoQ (%)	5.4	10.9	8.3	(27.6)	18.6	(5.8)	
COGS / SG&A	6,478	6,364	6,161	5,082	5,623	5,430	
EBITDA	(114)	695	1,483	453	942	757	
YoY (%)	(109.3)	(37.5)	5.6	3.3	N. A	8.9	
QoQ (%)	(125.9)	(712.1)	113.5	(69.5)	107.9	(19.7)	
EBITDAM (%)	(1.8)	9.8	19.4	8.2	14.3	12.2	~Rs100m inventory losses, A&P expenses upped.
Depreciation	212	211	211	218	225	229	
Other Income	27	12	34	38	40	30	
Financial Expenses	32	16	28	17	7	27	
PBT	(330)	480	1,278	256	928	530	
Tax Expenses	(89)	126	337	59	222	154	
PAT	(241)	354	941	196	706	376	
YoY (%)	(131.7)	(47.4)	6.7	22.4	N.A	6.3	
QoQ (%)	(250.5)	(246.8)	166.0	(79.2)	31.1	(28.6)	

Source: Company, DAM Capital Research

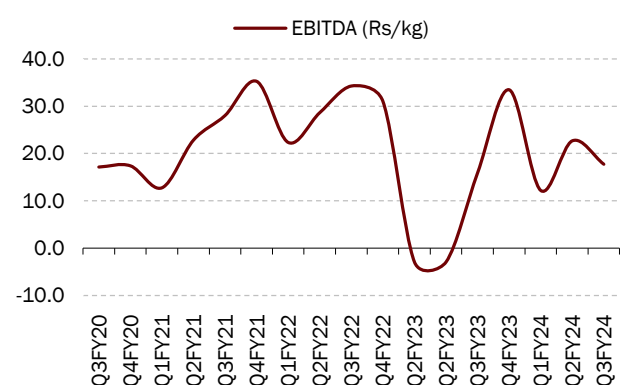
Quarterly Performance in Charts

Exhibit 3: Pipes volume: 2% yoy drop



Source: Company, DAM Capital Research

Exhibit 4: Op. deleverage + inventory losses drive margin decline



Source: Company, DAM Capital Research

❑ Miscellaneous Call Highlights

- **Channel financing push to drive DSO levels lower:** 9M DSO at 73 days (vs 56 in FY23). Aim to bring this in the 60s through higher channel financing.
- **Bihar plant capex to rise to ~Rs2.2bn:** Capacity 50-52k MTPA (incl. fittings) vs 40k earlier. FY24E capex to be ~Rs150-250m (plus Rs270-280m for land acquired in Q2) and balance Rs1.7-1.75bn in FY25E. Ex. Bihar, FY24E/25E capex at ~Rs1.1-1.2bn / 900m-1bn.
- **Other updates:** (1) A&P Spend: Rs120m/Rs390m for Q3/9M (~2% of rev); (2) 9M Debt/Cash: Rs500m / Rs1.2bn respectively; (3) Overall C.U 50-52% in Q3; (4) CPVC price correction to the tune of 5-7% in Q3, none so far in Q4.

Exhibit 5: Revised Estimates

Revised Estimates (Rs mn)	FY24E			FY25E			FY26E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Total Volume (MT)	177,597	170,734	(3.9)	217,298	212,206	(2.3)	259,430	250,431	(3.5)
Blended Realization (Rs/MT)	158,131	149,537	(5.4)	162,875	155,519	(4.5)	167,762	160,184	(4.5)
Total Revenue	28,084	25,531	(9.1)	35,393	33,002	(6.8)	43,522	40,115	(7.8)
EBITDA	3,510	3,128	(10.9)	4,866	4,455	(8.4)	6,311	5,616	(11.0)
OPM (%)	12.5	12.3		13.8	13.5		14.5	14.0	
APAT	1,912	1,630	(14.8)	2,905	2,554	(12.1)	3,908	3,310	(15.3)
AEPS (Rs)	17.3	14.7	(14.8)	26.3	23.1	(12.1)	35.3	29.9	(15.3)

Source: DAM Capital Research

Exhibit 6: Key Assumptions

Key Assumptions	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pipes/Tanks:						
Volume (MT)	138,289	139,034	157,717	170,734	212,206	250,431
YoY (%)	4.1	0.5	13.4	8.3	24.3	18.0
Revenue (Rs m)	20,715	26,568	27,109	25,531	33,002	40,115
YoY (%)	26.6	28.3	2.0	(5.8)	29.3	21.6
EBITDA (Rs m)	3,616	4,156	2,503	3,128	4,455	5,616
YoY (%)	58.1	14.9	(39.8)	24.9	42.5	26.1
Margin (%)	17.5	15.6	9.2	12.3	13.5	14.0
EBITDA (Rs/kg)	26.2	29.9	15.9	18.3	21.0	22.4
YoY (%)	51.8	14.3	(46.9)	15.4	14.6	6.8
Other Data Points:						
RoCE (%)	26.5	26.6	11.6	14.1	19.0	21.9
RoE (%)	23.6	21.6	9.2	11.3	15.8	18.1
NWC (Days)	53	66	79	85	81	83

Source: DAM Capital Research

Income statement

Year to 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,568	27,109	25,531	33,002	40,115
% growth	28.3	2.0	(5.8)	29.3	21.6
Operating expenses	22,412	24,606	22,404	28,547	34,499
EBITDA	4,156	2,503	3,128	4,455	5,616
% change	14.9	(39.8)	24.9	42.5	26.1
Other income	55	86	140	165	201
Net interest cost	139	110	87	112	110
Depreciation	703	830	943	1,094	1,283
Pre-tax profit	3,369	1,648	2,238	3,414	4,424
Deferred tax	0	0	0	0	0
Current tax	875	434	608	859	1,114
Profit after tax	2,494	1,214	1,630	2,554	3,310
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	2,494	1,214	1,630	2,554	3,310
Non-recurring items	0	0	0	0	0
Reported net profit	2,494	1,214	1,630	2,554	3,310
% change	12.4	(51.3)	34.2	56.8	29.6

Balance sheet

As on 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	1,106	1,106	1,106	1,106	1,106
Preference capital	0	0	0	0	0
Reserves & surplus	11,547	12,534	14,017	16,060	18,378
Shareholders' equity	12,653	13,640	15,123	17,166	19,483
Total current liabilities	4,988	4,016	4,737	5,960	6,589
Total debt	1,500	581	1,081	1,281	1,031
Deferred tax liabilities	123	137	137	137	137
Other non-current liabilities	127	168	203	187	221
Total liabilities	6,738	4,902	6,158	7,566	7,978
Total equity & liabilities	19,390	18,542	21,281	24,732	27,461
Net fixed assets	6,682	7,041	7,599	9,254	8,821
Investments	17	3	3	3	3
Cash	687	2,161	1,947	1,413	1,513
Other current assets	11,580	9,091	11,486	13,816	16,878
Deferred tax assets	0	0	0	0	0
Other non-current assets	425	246	246	246	246
Net working capital	7,279	7,236	8,696	9,268	11,802
Total assets	19,390	18,542	21,281	24,732	27,461

Cash flow

Year to 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,369	1,648	2,238	3,414	4,424
Depreciation	703	830	943	1,094	1,283
Chg in Working capital	(3,506)	1,676	(1,743)	(1,204)	(2,533)
Total tax paid	(875)	(434)	(608)	(859)	(1,114)
Net Interest	139	110	87	112	110
Others	(13)	31	0	0	0
Operating cash flow	(243)	3,892	1,020	2,639	2,304
Capital expenditure	(1,589)	(1,190)	(1,500)	(2,750)	(850)
Free cash flow (a+b)	(1,833)	2,703	(480)	(111)	1,454
Chg in investments	(2)	14	0	0	0
Debt raised/(repaid)	648	(919)	500	200	(250)
Net interest	(139)	(110)	(87)	(112)	(110)
Capital raised/(repaid)	107	0	0	0	0
Dividend (incl. tax)	385	221	326	511	993
Other items	(779)	(435)	(473)	(1,022)	(1,986)
Net chg in cash	(1,612)	1,474	(214)	(534)	101

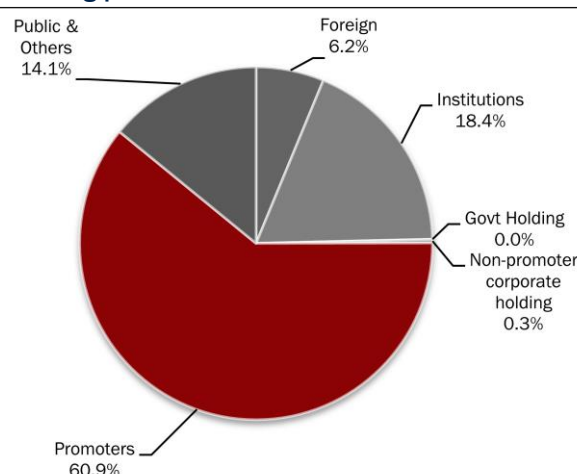
Key ratios

Year to 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
EBITDA margin (%)	15.6	9.2	12.3	13.5	14.0
EBIT margin (%)	13.0	6.2	8.6	10.2	10.8
PAT margin (%)	9.4	4.5	6.4	7.7	8.3
RoE (%)	21.6	9.2	11.3	15.8	18.1
RoCE (%)	26.6	11.6	14.1	19.0	21.9
Gearing (x)	0.1	(0.1)	(0.1)	0.0	0.0
Net debt/ EBITDA (x)	0.2	(0.6)	(0.3)	0.0	(0.1)
FCF yield (%)	(2.5)	3.6	(0.6)	(0.1)	2.0
Dividend yield (%)	(0.5)	(0.3)	(0.4)	(0.7)	(1.3)

Valuations

Year to 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Reported EPS (Rs)	22.6	11.0	14.7	23.1	29.9
Adj. EPS (Rs)	22.6	11.0	14.7	23.1	29.9
PE (x)	29.8	61.3	45.7	29.2	22.5
Price/ Book (x)	5.9	5.5	4.9	4.3	3.8
EV/ Net sales (x)	2.8	2.7	2.9	2.3	1.8
EV/ EBITDA (x)	18.1	29.1	23.5	16.7	13.2
EV/ CE (x)	5.2	5.0	4.4	4.0	3.5

Shareholding pattern



As of Dec-23

Disclaimer

This document has been prepared by DAM Capital Advisors Limited [the company/DAM Capital]. DAM Capital is a full-service, integrated investment banking, and institutional broking company. DAM Capital is registered with SEBI as Research Analyst having SEBI Registration number as INH000000131.

Disclaimer/ Disclosures:

The following disclosures are being made in Compliance with the SEBI Research Analyst Regulations 2014 (hereinafter referred to as Regulations)

1. DAM Capital the Research Entity (RE) is also engaged in the business of Investment Banking and Stock Broking and is registered with SEBI for the same.
2. There are no material disciplinary actions taken against DAM Capital as on the date of publication of this report.
3. DAM Capital and associates may from time to time solicit from or perform investment banking or other services for companies covered in its research report. Hence, the recipient of this report shall be aware that DAM Capital may have a conflict of interest that may affect the objectivity of this report. Investors should not consider this report as the only factor in making their investment decision.
4. The RE and/or its associate and/or the Research Analyst(s) may have financial interest or any other material conflict of interest in the company(ies)/ entities covered in this report. Please read this in conjunction with other disclosures herein.
5. The RE and/or its associate and/or the Research Analyst or relatives or family members of the Research Analyst may have actual/beneficial ownership exceeding 1% or more of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the date of publication of the research report.
6. A. In the past 12 months period ending on the last day of the month preceding the date of publication of this research report, DAM Capital or any of its associates may have:
 - Received any compensation for merchant banking, investment banking, stock broking or any other services from the Company covered by this research report;
 - Managed or co-managed public offering of securities of the company covered by this research report
 - Received compensation for products and services other than investment banking, merchant banking or stock broking services.
- B. DAM Capital or its associates have not received any compensation or any other benefits from the subject company or third party in connection with this research report in the past 12 months period ending on the last day of the month preceding the date of publication of this research report.
7. The other disclosures/terms and conditions on which this research report is being published are as under:
 - i. This document is made for the sole use of clients or prospective clients of DAM Capital who are/proposed to be registered in India. It is not for sale to general public.
 - ii. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or securities mentioned in this report or as an official confirmation of any transaction. This document does not intend to provide any financial advice to buy/sell securities mentioned in this report.
 - iii. The information contained in this document has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.
 - iv. The investment discussed or views expressed in the document may not be suitable for all investors. Investors should make their own investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and investment decisions based upon their own financial objectives and financial resources.
 - v. The intent of this document is not recommendatory in nature.
 - vi. DAM Capital has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.
 - vii. The Research Analyst and DAM Capital have not been engaged in market making activity for the company (ies) covered in the Research report.
 - viii. The information contained herein is from publicly available data or made by thorough analysis done by DAM Capital team. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein.
 - ix. While DAM Capital would endeavour to update the information herein on reasonable basis, the opinions and information in this report are subject to change without prior notice and prior approval and DAM Capital, its subsidiaries and associated companies, their directors and employees ("DAM Capital and associates") are under no obligation to update or keep the information current.
 - x. Subject to the disclosures made herein above, DAM Capital, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct entity, independent of each other. The recipient shall take this into account before interpreting the document.
 - xi. This material is being produced by DAM Capital solely for information purposes and for the use of the recipient. It is not to be reproduced, redistributed or passed on directly or indirectly to any other person or published copied in whole or part for any purpose and the same shall be void where prohibited.
 - xii. Neither the whole nor part of this document or copy thereof may be taken or transmitted into the United States of America "U.S. Persons" (except to major US institutional investors ("MII")) and Canada or distributed or redistributed, directly or indirectly, in the United States of America (except to MII), Canada, Japan and China or to any resident thereof.
 - xiii. Where the report is distributed within the United States ("U.S.") it is being distributed pursuant to exemption under Rule 15a-6(a) (2), only to Major U.S. Institutional Investors. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document may come shall inform themselves about, and observe, any such restrictions.
 - xiv. In no circumstances DAM Capital, any of its directors, employees or any of its associates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind including but not limited to any direct or consequential loss or damage, however arising, from the use of this document.

Copyright of this document vests exclusively with DAM Capital Advisors Limited

Contd...

Disclaimer

Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. In addition, investors in securities, the values of which are influenced by foreign currencies effectively assume currency risk.

Associates of DAM Capital may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DAM Capital and its associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of, and to observe, such applicable restrictions.

Reports based on technical analysis centres on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. DAM Capital will not treat recipients as customers by virtue of their receiving this report.

The analyst certifies that all of the views expressed in this research report accurately reflect his/her personal views about any and all of the subject issuer(s) or securities. The analyst certifies that no part of his / her compensation was, is, or will be directly or indirectly related to the specific recommendation(s) and/or views expressed in this report.

Research Disclaimer - Notice to US Investors

This report was prepared, approved, published and distributed by DAM Capital Advisors Limited, a company located outside of the United States (a "non-US Company"). This report is distributed in the US by DAM Capital (Parent of DAM Capital (USA) Inc.) only to major U.S institutional investors (as defined in Rule 15a-6 under the U.S Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption 15a-2) of the Rule and any transaction effected by a U.S customer in the securities described in this report must be effected through DAM Capital USA as defined in the Rule.

Neither the report nor any analyst who prepared or approved the report is subject to U.S legal requirements or Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. The non-US Company is neither registered as a broker-dealer under the Exchange Act, nor is a member of FINRA, Inc. or any other U.S. self-regulatory organization. The non-US Company is the employer of the research analyst(s) responsible for this research report. The research analysts preparing this report are residents outside the United States and are not associated persons of any US regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

It is distributed in the United States of America by DAM Capital under 15a-6(a)(2) and elsewhere in the world by DAM Capital or any authorised associate of DAM Capital.

ANALYST DISCLOSURES

1. The analyst(s) declares that neither he/she or his/her relatives have a Beneficial or Actual ownership of > 1% of equity of Subject Company/ companies;
2. The analyst(s) declares that he/she has no material conflict of interest with the Subject Company/ companies of this report;
3. The research analyst (or analysts) certifies that the views expressed in the research report accurately reflect such research analyst's personal views about the subject securities and issuers; and
4. The research analyst (or analysts) certifies that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.
5. The research analyst declares that he has not served as an officer, director or employee of the subject company.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Details of Compliance and Grievance officer		
Name: Rajesh Tekadiwala	Tel No. 022-4202 2584	Email Id - compliance@damcapital.in

Rating System	
Investment Ratings	Expected returns (over 12-month)
Buy	> =10%
Sell	< -5%
Neutral	<-5% to 10%

	SEBI Registration Nos. of DAM Capital Advisors Limited - CIN- U99999MH1993PCL071865
Research Analyst	INH 000000 131
Stock Broker	
NSE Capital Markets / NSE Futures & Options	INZ000207137
BSE Capital Markets / BSE Futures & Options	
Merchant Banker	INM000011336

Copyright in this document vests exclusively with DAM Capital Advisors Limited.

DAM Capital Advisors Limited

One BKC, Tower C, 15th Floor, Unit No. 1511,
Bandra Kurla Complex, Bandra (East),
Mumbai 400 051.
INDIA

Board: +91 22 4202 2500

Fax: +91 22 4202 2504

DAM Capital (USA) Inc.

42 Broadway
Suite 12-129,
New York, NY 10004

Tel: +1 917 881 7973

Our research is also available on Bloomberg and Thomson Reuters

For any assistance in access, please contact research@damcapital.in