

8 November 2024

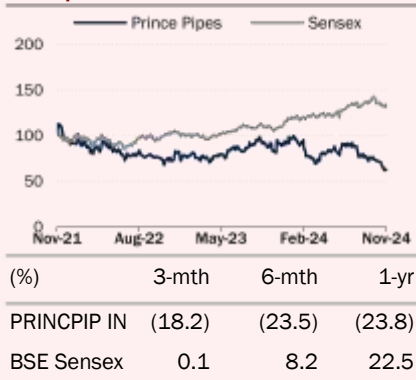
BSE Sensex: 79542

Sector: Home Improvement

Stock data

CMP (Rs)	477
Mkt Cap (Rs bn/USD m)	52.7 / 624
Target Price (Rs)	590
Change in TP (%)	(19.2)
Potential from CMP (%)	23.8
Earnings Change (%)	
FY25E	(34.6)
FY26E	(24.7)
FY27E	(21.1)
Bloomberg code	PRINCIPI IN
1-yr high/low (Rs)	776/466
6-mth avg. daily volumes (m)	0.2
6-mth avg. daily traded value (Rsm/USDm)	134.7/1.6
Shares outstanding (m)	110.6
Free float (%)	39.1
Promoter holding (%)	60.9

Price performance – relative & absolute



Prince Pipes & Fittings (PRINCIPI) has enough arrows in its quiver (and growing) to be a credible challenger in the plastic pipes arena but continues to punch below its weight. While near-term industry dynamics turn favourable, PRINCIPI needs to sustainably outperform aggressive peers (both on growth and margin expansion) for markets to reduce the valuation gap vis-à-vis leaders. Margin expansion would also be important to support its fledgling (but fast expanding) bathware business. Reducing DSOs is a positive (as is its debt free balance sheet), and valuations are supportive (26x/18x FY26E/27E P/E) and hence retain BUY (TP Rs590 / 27.5x Sep'26E EPS) – but re-rating will need sustained volume outperformance.

Q2FY25 Result Highlights

- **Pipes:** Vol +4% yoy. Better mix (lower Agri) covers for polymer price drop/incentives driving flat realization qoq. – (Peer vol: FNXP +10% / APOLP +1% (ex. of KSMD -17%) / SI flat yoy / ASTRA 3% degrowth)
- **Bathware:** ~Rs70m rev (+40% qoq) with EBITDA loss of ~Rs35m.
- **EBITDA:** 7.3% (down 230 bps qoq). Ex bathware/inventory losses, margins at 8-9% (vs 14% yoy – higher CPVC sales in base qtr). ~2% margins lost to higher trade incentives during Q2 (continued into Oct).
- **Key Call Takeaways:**
 - **FY25E volume guidance toned down:** 8-10% in FY25E (given current market realities) vs 15% (2-3Y CAGR). No margin guidance.
 - **Price hikes being pushed:** First PVC price hike of Nov 1 has been passed on. Second price hike of Nov 7 to be passed on in the next few days. CPVC prices are stable

Key Negatives: Weak margins.

Impact on financials: ~34%/~25%/~21% cut in FY25E/FY26E/FY27E EPS – downward revision in margin estimates.

Valuations

Roll forward – value PRINCIPI at 27.5x Sep'26E EPS (TP Rs590), sustained growth while driving margins would be key for multiples to re-rate.

Key valuation metrics

Year to 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Net sales (Rs m)	27,109	25,687	27,945	35,813	42,550
EBITDA (Rs m)	2,503	3,074	2,612	3,818	5,034
Adj. net profit (Rs m)	1,214	1,646	1,189	1,919	2,787
Adj. EPS (Rs)	11.0	14.9	10.8	17.4	25.2
% change	(51.5)	35.5	(27.7)	61.3	45.2
PE (x)	43.4	32.0	44.3	27.5	18.9
Price/ Book (x)	3.9	3.4	3.2	2.9	2.6
EV/ EBITDA (x)	20.4	17.1	19.8	13.6	10.2
RoE (%)	9.2	11.3	7.4	11.1	14.5
RoCE (%)	11.6	13.7	8.7	13.1	17.4

Source: Company, DAM Capital Research

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Exhibit 1: Quarterly Results Snapshot

(Rs m)	Q2FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)	H1FY24	H1FY25	YoY (%)
Pipes & Fittings:								
Volume ('000 MT)	41.5	42.2	43.3	2.7	4.3	78.7	85.5	8.6
Realisation (Rs/kg)	158.1	142.1	142.0	(0.1)	(10.1)	153.8	142.1	(7.6)
EBITDA (Rs/kg)	22.7	13.8	10.6	(23.6)	(53.5)	18.6	13.0	(29.7)
Consolidated P&L items:								
Revenue	6,565	6,045	6,221	2.9	(5.2)	12,100	12,265	1.4
EBITDA	942	583	457	(21.6)	(51.5)	1,395	1,040	(25.5)
Margin (%)	14.3	9.6	7.3			11.5	8.5	
PAT	527	247	147	(40.4)	(72.1)	723	394	(45.6)
Margin (%)	8.0	4.1	2.4			6.0	3.2	

Source: Company, DAM Capital Research

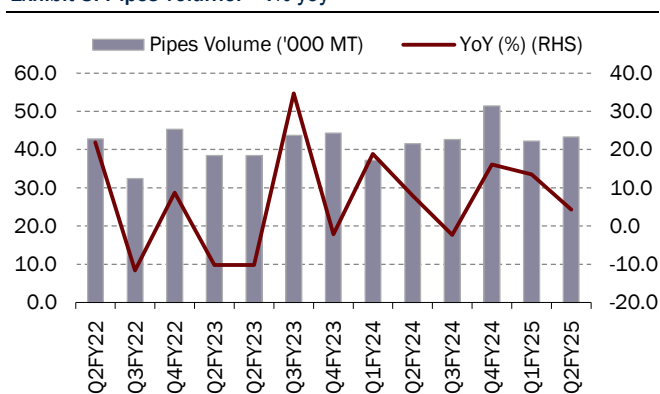
Exhibit 2: Quarterly Financials (Detailed)

(Rs m)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY24	Q2FY25	Comments
Total Revenue	5,536	6,565	6,186	7,401	6,045	6,221	+4% vol. yoy in bad quarter driven by aggressive trade incentives
YoY (%)	(8.4)	3.1	(12.4)	(3.2)	9.2	(5.2)	
QoQ (%)	(27.6)	18.6	(5.8)	19.6	(18.3)	2.9	
COGS / SG&A	5,082	5,623	5,430	6,479	5,462	5,764	
EBITDA	453	942	757	923	583	457	
YoY (%)	3.3	N. A	8.9	(37.8)	28.7	(51.5)	
QoQ (%)	(69.5)	107.9	(19.7)	21.9	(36.8)	(21.6)	
EBITDAM (%)	8.2	14.3	12.2	12.5	9.6	7.3	Mix benefit negated by bathware losses + inventory losses of Rs120m + higher incentivization
Depreciation	218	225	229	239	257	276	
Other Income	38	40	30	53	26	39	
Financial Expenses	17	7	27	14	14	16	
PBT	256	928	530	723	337	204	
Tax Expenses	59	222	154	177	90	57	
PAT	196	706	376	546	247	147	
YoY (%)	22.4	N.A	6.3	(41.9)	25.8	(72.1)	
QoQ (%)	(79.2)	31.1	(28.6)	45.2	(54.9)	(40.4)	

Source: Company, DAM Capital Research

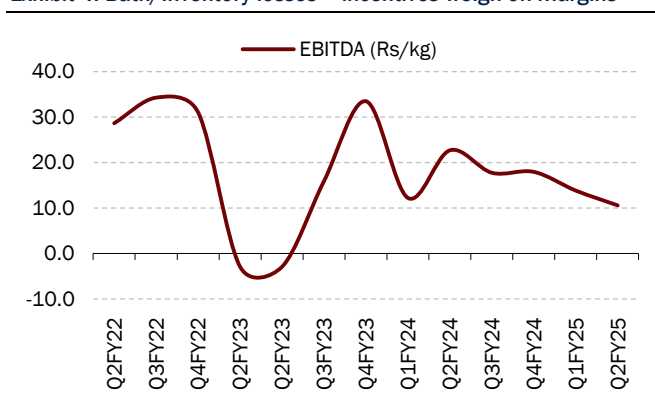
Quarterly Performance in Charts

Exhibit 3: Pipes volume: +4% yoy



Source: Company, DAM Capital Research

Exhibit 4: Bath/Inventory losses + incentives weigh on margins



Source: Company, DAM Capital Research

❑ Miscellaneous Call Highlights

- **NWC will improve further:** DSO down to 55 days (vs 83 in FY24) and can slip below 50 by FY25E end. DIO at 88 has scope for correction (target DIO of 70 days by FY25E end).
- **Q2 margin impact:** (1) Rs120-150m inventory loss (200-250 bps); (2) 2% additional trade incentives to push volume growth; (3) 50 bps Bathware EBIT loss (Rs30-40m).
- **Bathware expectations:** ~Rs250m revenue in FY25E (Rs115m in H1). Rs160m EBIT loss – expect breakeven by Q3FY26E.
- **FY25E capex plans:** Rs3.3-3.5bn – Rs1.7bn for Bihar Plant (ready by March 2025) + Rs300-350m debottlenecking in existing pipe plants + Rs800-900m maintenance capex + Rs500m for Aquel (incl. Rs430m second tranche payment).

Exhibit 5: Revised Estimates

Revised Estimates (Rs mn)	FY25E			FY26E			FY27E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Total Volume (MT)	199,685	192,603	(3.5)	240,293	233,459	(2.8)	277,670	270,256	(2.7)
Blended Realization (Rs/MT)	145,860	143,195	(1.8)	150,236	150,355	0.1	153,241	153,362	0.1
Total Revenue	29,476	27,945	(5.2)	36,801	35,813	(2.7)	43,670	42,550	(2.6)
EBITDA	3,483	2,612	(25.0)	4,651	3,818	(17.9)	6,019	5,034	(16.4)
OPM (%)	11.8	9.3		12.6	10.7		13.8	11.8	
APAT	1,817	1,189	(34.6)	2,547	1,919	(24.7)	3,533	2,787	(21.1)
AEPS (Rs)	16.4	10.8	(34.6)	23.0	17.4	(24.7)	32.0	25.2	(21.1)

Source: DAM Capital Research

Exhibit 6: Key Assumptions

Key Assumptions	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pipes/Tanks:						
Volume (MT)	139,034	157,717	172,793	192,603	233,459	270,256
YoY (%)	0.5	13.4	9.6	11.5	21.2	15.8
Revenue (Rs m)	26,568	27,109	25,587	27,580	35,102	41,447
YoY (%)	28.3	2.0	(5.6)	7.8	27.3	18.1
EBITDA (Rs m)	4,156	2,503	3,149	2,758	3,861	4,974
YoY (%)	14.9	(39.8)	25.8	(12.4)	40.0	28.8
Margin (%)	15.6	9.2	12.3	10.0	11.0	12.0
EBITDA (Rs/kg)	29.9	15.9	18.2	14.3	16.5	18.4
YoY (%)	14.3	(46.9)	14.8	(21.4)	15.5	11.3
Bathware:						
Revenue (Rs m)	-	-	100	365	712	1,103
YoY (%)	-	-	-	265.0	95.0	55.0
EBITDA (Rs m)	-	-	(75)	(146)	(43)	61
YoY (%)	-	-	-	-	-	-

Source: DAM Capital Research

Income statement

Year to 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	27,109	25,687	27,945	35,813	42,550
% growth	2.0	(5.2)	8.8	28.2	18.8
Operating expenses	24,606	22,613	25,333	31,995	37,516
EBITDA	2,503	3,074	2,612	3,818	5,034
% change	(39.8)	22.8	(15.0)	46.2	31.8
Other income	86	161	140	179	255
Net interest cost	110	65	76	67	34
Depreciation	830	912	1,086	1,366	1,532
Pre-tax profit	1,648	2,258	1,590	2,564	3,724
Deferred tax	0	0	0	0	0
Current tax	434	613	400	645	937
Profit after tax	1,214	1,646	1,189	1,919	2,787
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	1,214	1,646	1,189	1,919	2,787
Non-recurring items	0	0	0	0	0
Reported net profit	1,214	1,646	1,189	1,919	2,787
% change	(51.3)	35.5	(27.7)	61.3	45.2

Balance sheet

As on 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Paid-up capital	1,106	1,106	1,106	1,106	1,106
Preference capital	0	0	0	0	0
Reserves & surplus	12,534	14,338	15,468	17,003	19,233
Shareholders' equity	13,640	15,444	16,574	18,109	20,338
Total current liabilities	4,761	4,177	6,001	6,992	7,595
Total debt	581	1,144	894	894	0
Deferred tax liabilities	137	191	191	191	191
Other non-current liabilities	168	277	309	314	304
Total liabilities	5,648	5,788	7,395	8,391	8,090
Total equity & liabilities	19,287	21,232	23,969	26,500	28,428
Net fixed assets	7,041	8,329	10,544	10,027	9,545
Investments	3	3	3	3	3
Cash	2,140	1,156	1,786	1,600	1,539
Other current assets	9,836	11,309	11,201	14,435	16,905
Deferred tax assets	0	0	0	0	0
Other non-current assets	267	435	435	435	435
Net working capital	7,215	8,288	6,987	9,043	10,849
Total assets	19,288	21,232	23,969	26,500	28,428

Cash flow

Year to 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	1,648	2,258	1,590	2,564	3,724
Depreciation	830	912	1,086	1,366	1,532
Chg in Working capital	1,655	(2,056)	1,932	(2,243)	(1,866)
Total tax paid	(434)	(613)	(400)	(645)	(937)
Net Interest	110	65	76	67	34
Others	31	68	0	0	0
Operating cash flow	3,871	505	4,316	1,114	2,475
Capital expenditure	(1,190)	(2,200)	(3,300)	(850)	(1,050)
Free cash flow (a+b)	2,682	(1,695)	1,016	264	1,425
Chg in investments	14	0	0	0	0
Debt raised/(repaid)	(919)	563	(250)	0	(894)
Net interest	(110)	(65)	(76)	(67)	(34)
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	(221)	0	(59)	(384)	(557)
Other items	8	213	0	0	0
Net chg in cash	1,453	(984)	630	(187)	(60)

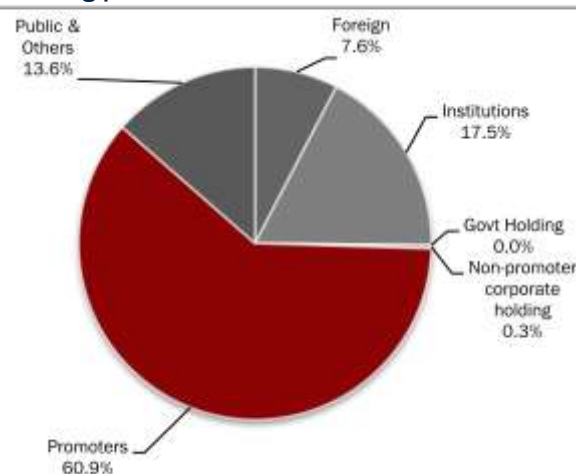
Key ratios

Year to 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin (%)	9.2	12.0	9.3	10.7	11.8
EBIT margin (%)	6.2	8.4	5.5	6.8	8.2
PAT margin (%)	4.5	6.4	4.3	5.4	6.5
RoE (%)	9.2	11.3	7.4	11.1	14.5
RoCE (%)	11.6	13.7	8.7	13.1	17.4
Gearing (x)	(0.1)	0.0	(0.1)	0.0	(0.1)
Net debt/ EBITDA (x)	(0.6)	0.0	(0.3)	(0.2)	(0.3)
FCF yield (%)	5.1	(3.2)	1.9	0.5	2.7
Dividend yield (%)	(0.4)	0.0	(0.1)	(0.7)	(1.1)

Valuations

Year to 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Reported EPS (Rs)	11.0	14.9	10.8	17.4	25.2
Adj. EPS (Rs)	11.0	14.9	10.8	17.4	25.2
PE (x)	43.4	32.0	44.3	27.5	18.9
Price/ Book (x)	3.9	3.4	3.2	2.9	2.6
EV/ Net sales (x)	1.9	2.1	1.9	1.5	1.2
EV/ EBITDA (x)	20.4	17.1	19.8	13.6	10.2
EV/ CE (x)	3.5	3.1	2.9	2.7	2.5

Shareholding pattern



As of Sep-24

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