

Retail Equity Research (South India Focus)

Prince Pipes & Fittings Ltd

Plastic Pipes

BSE CODE : 542907

NSE CODE: PRINCEPIPE

BLOOMBERG CODE: PRNCPIN

SENSEX : 57,897

BUY

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 700 TARGET Rs. 855 RETURN 22% ↑

(Closing: 28-12-21)

Valuation discount narrowed...a potential giant killer

Prince Pipes & Fittings Ltd (PPFL), is one of the leading manufacturers of plastic pipes in India with 5.5% of overall market share. Products are marketed under brand names: Prince Piping Systems and Trubore.

- Revenue grew by 16% CAGR whereas PAT grew by a whopping 50% CAGR over FY16-21.
- EBITDA margin expanded by 760bps to 17.5% over FY16-21.
- Strong profitability growth was led by margin expansion on account of improvement in product mix.
- Rapid urbanization has led to growth in plumbing & sewerage, and agri driven by lower irrigation coverage & robust monsoon.
- We factor earnings to grow by 18% CAGR over FY21-FY24E.
- Valuation gap with large players has narrowed, however given PPL strong earnings outlook, we expect re-rating to continue. We value at PPFL at P/E of 26x on FY24E with a target price of Rs855 and recommend to Buy.

Plastic pipes and fittings outlook remains healthy

Indian Pipes and Fittings industry grew by healthy 11% CAGR over FY14-20, rapid urbanization has led to growth in plumbing & SWR, Agri driven by lower irrigation coverage & robust monsoon. Further aided by increased awareness, adoption and substitution of metal pipes by plastic pipes due to their lower price, higher longevity, relative resistance to leakage, and easy installation added to robust growth. Further, government initiatives aimed at providing basic civic amenities like water supply and sewerage is adding impetus to the growth.

Strong operating performance...superior mix

PPFL profitability grew by 50% CAGR over FY16-21 led by superior revenue growth and robust operating performance. EBITDA grew by 29% CAGR, while EBITDA margin expanded by 760bps to 17.5%. We believe that, this superior performance was driven by significant improvement sales mix towards plumbing & SWR as well improving contribution from fittings business.

Strong product portfolio & technical tie-ups provides impetus

PPFL has well diversified portfolio which caters to extensive industry applications in plumbing, sewerage, irrigation, industrial and underground drainage. With providing more value added in products company has entered into technical tie-ups with Lubrizol, a leader in CPVC compounds.

Large organized players to gain market share...

The organised players is gradually gaining market share given their superior product portfolio, increasing retail foot print and focus on brand visibility. Further, post GST implementation unorganised players has lost pricing advantage while disruptions due to pandemic as well higher cost raw material cost led to deterioration in working capital of these players. Given this scenario, organised players like PPFL will benefit.

Valuations

Valuation discount of PPFL compared with larger players has narrowed in last one year on account of strong earnings performance, healthy outlook and improvement in corporate governance. Covid-19 disruptions have impacted the volume growth in the last 2 years, which is expected normalize going forward. Given the strong earnings outlook of 18% CAGR over FY21-24E, we value PPFL at a P/E of 26x on FY24E and recommend to "BUY" with a target price of Rs.855.

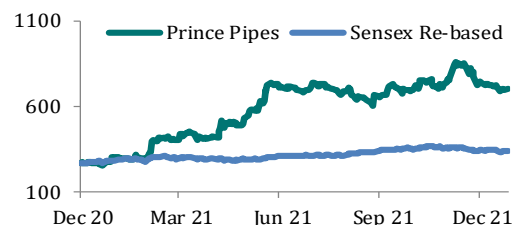
Company Data

Market Cap (cr)	Rs.7,706
Enterprise Value (cr)	Rs.7,576
Outstanding Shares (cr)	11.0
Free Float	37.0%
Dividend Yield	0.5%
52 week high	Rs.897
52 week low	Rs.273
6m average volume (cr)	0.1
Beta	1.0
Face value	Rs.10.0

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	63.3	63.3	63.3
FII's	2.4	3.1	3.6
MFs/Insti	15.6	12.5	11.8
Public	11.8	14.1	15.0
Others	6.9	7.2	6.4
Total	100.0	100.0	100.0

Price Performance*	3 month	6 Month	1 Year
Absolute Return	0.3%	-2.6%	152.7%
Absolute Sensex	-3.8%	9.4%	21.3%
Relative Return	4.1%	-12.0%	131.5%

*over or under performance to benchmark index



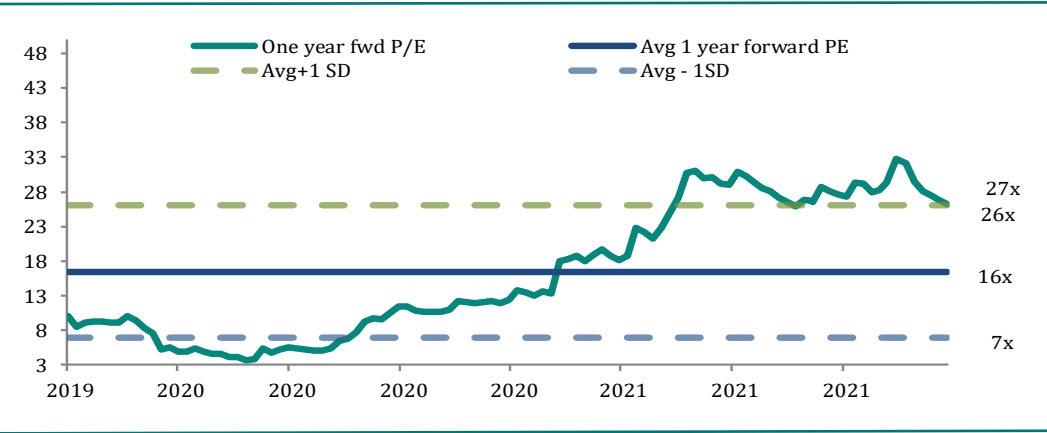
Y.E Mar (cr)	FY22E	FY23E	FY24E
Sales	2,668	3,092	3,599
Growth (%)	29.0	16.0	16.4
EBITDA	408	495	587
EBITDA Margins %	15.3	16	16.3
PAT Adjusted	249	305	362
Growth (%)	12.1	22.7	18.5
Adjusted EPS	22.6	27.7	32.9
Growth (%)	12.1	22.7	18.5
P/E	31.0	25.3	21.3
P/B	2.6	2.1	1.7
EV/EBITDA	19.3	15.8	13.2
ROE (%)	21.3	21.1	20.3
D/E	0.1	0.1	0.1

Re-rating in last 1 year from 5x-26x largely propelled by continuity in earnings momentum & likelihood of consolidation of industry benefitting large organised players like PPFL.

Re-rating to continue on account of higher growth versus PPFL peers.

Valuations

PPFL was trading at P/E multiple of 10x post listing, but due to some corporate governance concerns arising out of real estate dues of promoters, valuation took a beating and was trading in the range of 3x to 5x versus industry average of 30x, which was unwarranted. This was despite strong earnings growth momentum of 50% CAGR led by margin expansion over FY16-21. However, on a positive note PPFL valuation saw significant re-rating from 5x to 26x in the last 1 year, on account of continued superior earnings performance, steady improvement in corporate governance standards and expectation of consolidation of industry leading to market share gain. Currently PPFL is trading at 1 year forward P/E of 27, which is 5% & 55% discount to Supreme Industries & Astral, while it trading at 33% premium to Finolex Industries.



Source: Company, Geojit Research.

Organized players to gain...

The pandemic has impacted the volumes of plastic pipes industry due to frequent disruptions in demand as well as the supply chains. Further sharp rise in raw material prices was another headwind. Given this scenario, the unorganized sector including some of small regional player’s financials were significantly impacted. While large organized players with healthy balance sheet witnessed significant improvement in earnings despite the impact of pandemic. With strong technological tie-up, value added products, wider distribution network, we expect organized players to gain market share.

Outlook intact...re-rating to continue

In the last few years, PPPL has emerged as a strong player among the industry leaders led by superior revenue growth. It has strong manufacturing base, diversified product portfolio and robust distribution network. Tie-ups with Lubrizol, the inventors of CPVC for Flow-Guard and Corzan brands would enable volume growth in plumbing/industrial category along with improvement in overall value mix. Further, management is upping spends on brand building with avg. 2.6% of net sale (last 3 years) while ad spends was ~3% for FY21. The industry average valuation is 40x while PPFL is trading at 1Yr Fwd P/E of 28x, which seems to be at significant discount to its peers.

Initiate with “BUY”

Revival in construction & economic activities, consolidation in industry and potential of rapid market share gains by large players like PPFL, we expect PPFL’s valuation discount with market leaders to narrow down further. We expect earnings to grow at 18% CAGR over FY21-24E. Given strong earnings profile, we value the stock at a P/E multiple of 26x on FY24E and we initiate a BUY rating on the stock with target price of Rs.855.

Peer table

COMPANY	MCAP	Sales (Cr)	EBITDA (%)	PAT Margin	EV/EBITDA	P/BV	P/E	D/E	RoE
Supreme Industries Ltd	28074	6299	20	15.5%	19.6	9.4	30.4	0.0	36.0
Astral Ltd	44924	3176	20	12.7%	50.2	24.0	114.4	0.0	23.8
Finolex Industries Ltd	8079	2768	13	16.7%	13.8	2.6	18.6	0.0	14.4
Prince Pipes & Fittings Ltd	7706	2072	17.5	10.7%	20.9	3.2	34.7	0.1	21.3

Source: Bloomberg, Geojit Research.



Upgrading from mid size player to 5th largest players

Company Overview

Incorporated in 1987, Prince Pipes and Fittings Ltd (PPFL), is one of the leading polymer pipe and fitting manufacturers in India. Ranks among top 5 companies in the organized industry in terms of production capacity and distribution network. The Company has more than 3 decades of experience in manufacturing polymer pipes using four different polymers -UPVC, CPVC, PPR and HDPE. The Company’s products are marketed under two brand names: Prince Piping Systems and Trubore. Company provides innovative solutions in plumbing, irrigation, storage, and sewerage technologies to meet India’s growing water management needs. With an exhaustive product portfolio of 7,200 SKUs the Company is an end-to-end solutions provider. Its product range caters to the requirements of both the rural and urban markets. PPFL also provides bore-well systems for groundwater extraction. PPFL collaborated with Lubrizol (U.S), the world’s largest manufacturer and inventor of CPVC compounds. This gives PPFL exclusivity to bring Prince Flow-guard Plus (CPVC plumbing systems)/ Corzan (the CPVC industrial piping systems) to the market .

Key data points

- ◆ PPFL is pure play on the Indian piping sector, while its larger peers has exposure in PVC resins & consumer products.
- ◆ Strategic in North, West and South India through manufacturing units in Dadra and Nagar Haveli, Uttarakhand, Maharashtra, Tamil Nadu, Rajasthan and Telangana.
- ◆ Pan-India distribution network of over 1500 channel partners.
- ◆ Brand names include Prince Piping Systems and Trubore.
- ◆ Technological tie-up foreign players including Lubrizol.

Indian Plastic Pipes and Fittings Industry

Indian plastic piping industry is one of key segments in the building materials which includes paints, sanitary ware & faucet, ceramic, plywood and laminates etc. Large part of building materials fortunes are linked with real estate demand. But for plastic pipes industry, apart from the real estate, a significant portion of demand also arise from the irrigation, urban infrastructure and sanitation projects which provide significant growth opportunities. UPVC represents 65% of the industry demand mainly used in irrigation. Future demand to be driven by increasing application of HDPE and CPVC pipes.

Types of polymers and applications

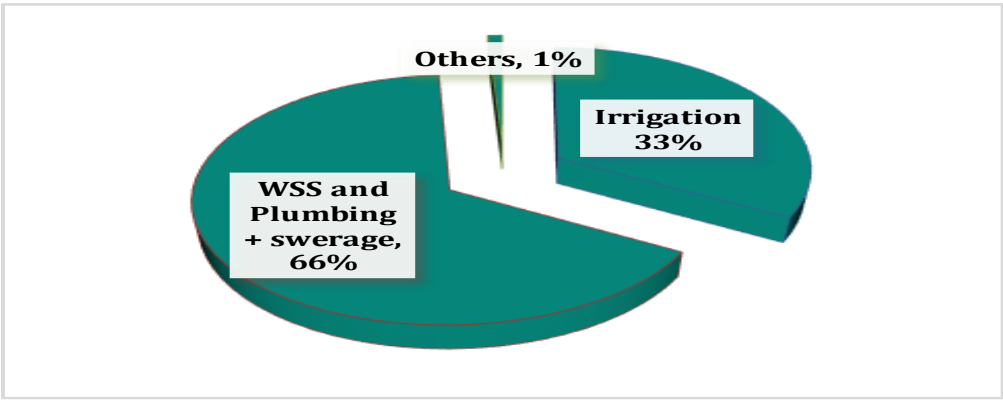
Types of pipes	Applications
Unplasticized Polyvinyl Chloride (UPVC)	➤ Irrigation
	➤ Cold water plumbing
	➤ Drainage
Chlorinated Polyvinyl Chloride (CPVC)	➤ Hot and cold water system
	➤ Industrial applications
High-density Polyethylene (HDPE)	➤ Underground drainage structured wall
	➤ WSS solid wall
Polypropylene Random (PPR)	➤ Hot and cold water systems
	➤ Industrial applications
Composite pipe	➤ Hot and cold water systems
	➤ Gas pipeline
	➤ Industrial applications

Source: Company, Geojit Research.

CPVC pipes gaining more prominence...

CPVC pipes in India are still at a nascent stage, even though the demand for the CPVC category has been the highest amongst pipes over FY 14-19, due to its inherent advantages. The following attributes of CPVC pipes creates more affinity and demand for purposes of replacement and substitution. CPVC is ideal for home plumbing system due to its thermoplastic properties, corrosion resistance, ease of installation and optimum flow rates. CPVC pipes and fittings restrict bacterial growth, which keeps the water quality healthy make its suitable for carrying drinking water.

Plastic pipe industry mix



Source: Company, Geojit Research.

Irrigation, urban infrastructure and sanitation projects are key growth drivers for the industry.

Industry growth drivers...

Irrigation

About 58% of India's population depend on agriculture considering it as a primary source of income, the irrigation sector is the prime user of PVC pipes, contributing ~47% to total sales. 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. With the aim of enhancing the irrigation coverage across India, Prime Minister Krishi Sinchai Yojna (PMKSY has formulated by amalgamating schemes such as Accelerated Irrigation Benefits Programme (AIBP), Integrated Watershed Management Programme, Per Drop More Crop and Har Khet Ko Pani has helped the plastic pipe industry driver for earnings.

Real estate outlook slowly improving...

The real estate sector is one of the prime consumers of plastic pipes and fittings. The implementation of Real Estate Regulatory Authority (RERA) has helped boost investments in real estate enhancing transparency, financial discipline and driving greater efficiency, while the Pradhan Mantri Aawas Yojana (PMAY) is working towards minimizing housing shortage amongst the urban poor. Several tax benefits such as reduction in GST rate on affordable homes to 1%, under construction homes to 5% with zero GST for ready homes and hiking exemption limit of interest on home loans to Rs3.5 lakh have provided further impetus to affordable and mid-income housing. Providing flexibility in REITs and tax reliefs has boosted market sentiments and today, the sector is on its road to recovery with homebuyers and investors returning to the market. The real estate sector in India is expected to reach a market size of US\$ 1 trillion by 2030 from US\$ 120 billion in 2017 and contribute 13% to the country's GDP by 2025.

Water supply & sanitation has potential to boost the industry growth

Water supply and sanitation (WSS) and plumbing are the second largest end-user segment for plastic pipes, accounting for 35-40% share of the plastic pipes market. Over the last five years, the Government has invested Rs.416 billion in WSS led by several schemes. The Government has undertaken various programmes to boost infrastructure in urban areas. This will lead to a rise in demand for WSS and plumbing, in turn resulting in growth of the PVC pipes. Swachh Bharat Mission , Atal mission for rejuvenation & urban transformation (AMRUT) and smart cities mission were key programmes which is benefiting the industry. Further, "Nal se Jal" scheme, a component of the Jal Jeevan Mission, which promises to provide piped drinking water to every household in the country by 2024. For FY21 the budgetary allocation was increased by 15% YoY to Rs.11,500cr. We believe the plastic pipes industry could gain from this initiative given 30 -35% of spending can go for plastic pipes, including large diameter pipes such as DWC (double-walled corrugated pipes) as well as small pipes, if there is any significant ramp-up in government spending. Given PPEL is one of leading players in fittings and DWC, likely to be a significant beneficiary from successful implementation of the 'Nal Se Jal' initiative.

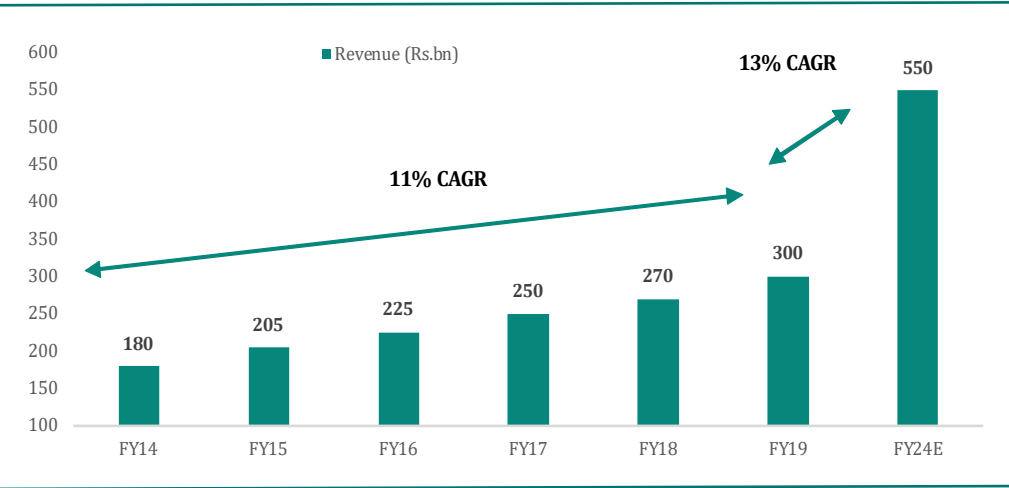
Investment Rationale

Plastic pipes and fittings outlook remains healthy

Indian Pipes and Fittings industry grew by healthy 11% CAGR over FY14-20 driven by rapid urbanization and government boost towards irrigation spends. Further aided by increased awareness, adoption and substitution of metal pipes by plastic pipes due to their lower price, higher longevity, relative resistance to leakage, and easy installation added to robust growth. The role of government with initiatives like Housing for All, Atal Mission for Rejuvenation and Urban Transformation (AMRUT) aimed at providing basic civic amenities like water supply, sewerage, urban transport and Pradhan Mantri Krishi Sinchayee Yojana (Prime Minister Agriculture Irrigation Scheme) added impetus to the growth. Government has recently rolled out an ambitious Jal Jeevan Mission which is envisioned to provide safe and adequate drinking water through individual household tap connections by 2024 to all households in rural India with an investment of Rs.3.6trillion. The programme will also implement source sustainability measures as mandatory elements, such as recharge and reuse through grey water management, water conservation, rain water harvesting. It is very difficult to factor in figures at this juncture, however we believe that this initiative has potential to accelerate industry for growth for next 2-3 years. The organized segment in the pipes and fittings industry accounts for a 60-65% share of the country’s plastic pipes industry. We expect the industry to reach over Rs.500 billion by FY24, at a CAGR of 12-14%. With respect to applications, sewer and drain is the most lucrative segment, followed by water supply, irrigation, plumbing, and others.

Industry to reach over Rs.500 billion by FY24, at a CAGR of 12-14%.

Plastic Pipe Industry growth



Source: Industry , Company, Geojit Research.

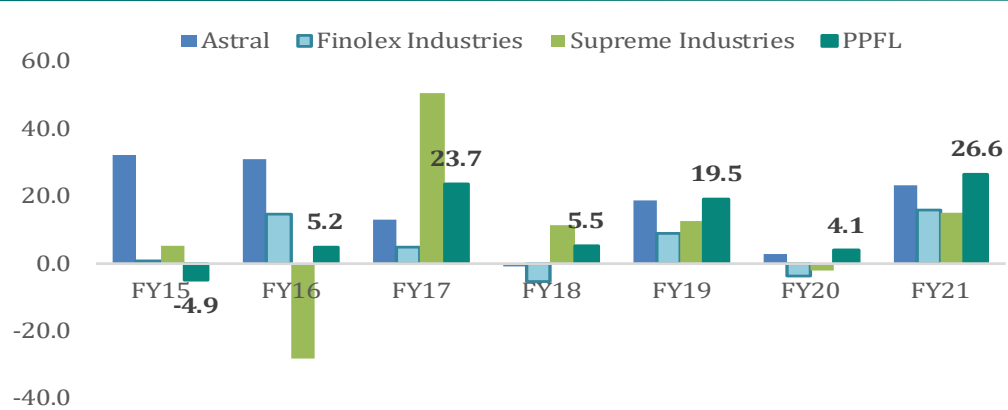
Superior growth versus industry peers

Revenue growth highest among listed peers...

Over FY15-FY21, PPFL's revenue grew by 14% CAGR versus its larger industry peers growth of 9.2% CAGR in revenue terms. Key reason for its outperformance was on account of strong product portfolio, improved its product mix and focus on brand building. Tie-ups with global players is expected further boost its brand recall. Apart from the revenue growth, PPFL profitability growth also outpaced by 49.2% CAGR versus average 30% of its large peer during FY16-21. This was largely attributed to strong margin expansion. Key reason for this could be attributed to high exposure in to the plastic pipe sector coupled with relative outperformance. We expect this momentum to continue given likelihood further consolidation of industry going forward.

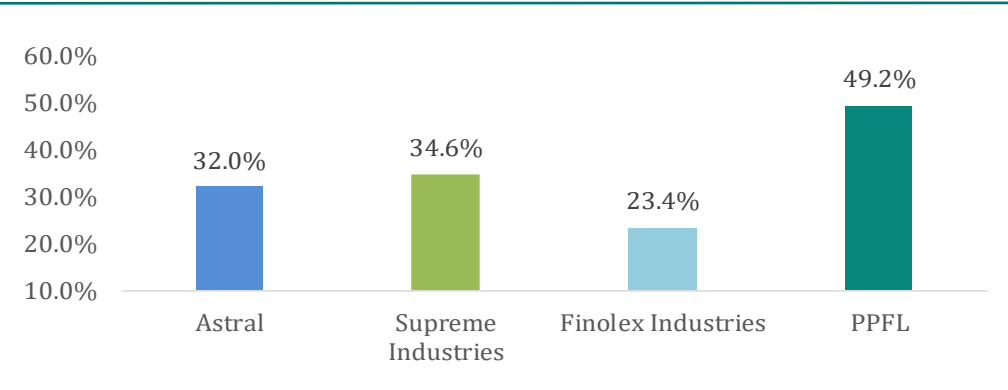
Amongst the listed peers, PPFL is the only company with sole exposure to plastic pipe and fittings. Whereas, other players have diversified into other business like in case of Supreme Industries has diversified into industrial, packaging and furniture business. Astral is diversified into adhesives with acquisition of Resinova and Seal IT, while Finolex Industries is into manufacturing of PVC resin. Despite these diversifications by PPFL's key competitors, pipes continues to be key contributor for the revenue growth.

Superior revenue growth



Source: Company, Geojit Research.

Profitability growth during FY16-21



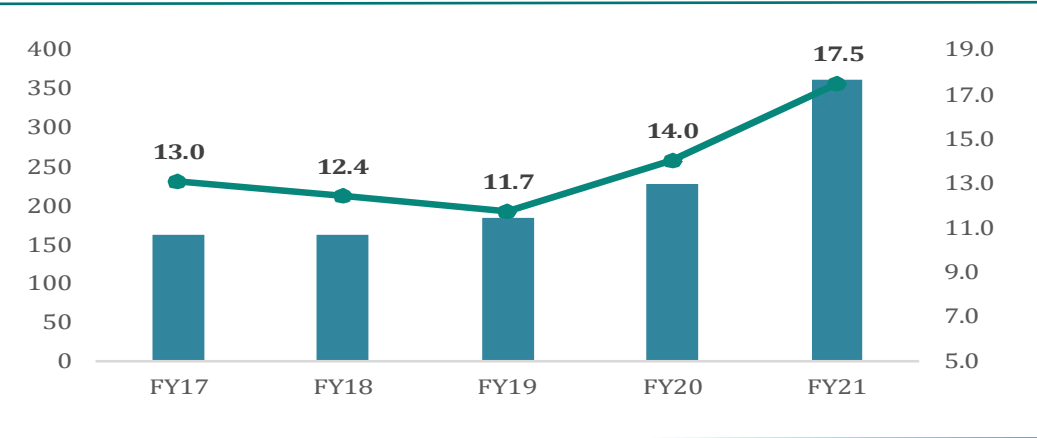
Source: Company, Geojit Research.

Strong operating performance...superior mix

PPFL profitability grew by 50% CAGR over FY16-21 led by superior revenue growth and robust operating performance. EBITDA grew by 29% CAGR, while EBITDA margin expanded by 760bps to 17.5%. We believe that, this superior performance was driven by significant improvement sales mix towards plumbing & SWR as well improving contribution from fittings business, which are high margin business. The pricing power seems too improved significantly on account of increase mix towards CPVC and higher brand recall. Further, sharp increase in PVC resin prices in recent time has led to higher realization and inventory gains. Apart from this, profitability was also boosted by reduction in interest cost due to de-leveraging of balance sheet. The D/E ratio improved from 1.3x to 0.1 over FY16-21.

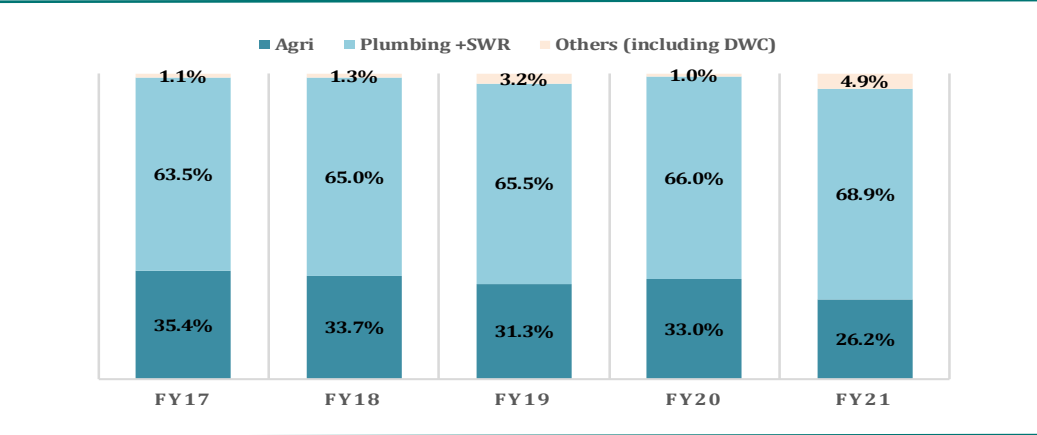
Superior performance driven
by improving mix

EBITDA margins improving



Source: Company, Geojit Research.

Improving mix



Source: Company, Geojit Research.

Strong product portfolio....

PPFL has a well-diversified portfolio with 7200 SKUs. Its pipes and fittings made using four types of polymers – CPVC, UPVC, HDPE and PPR which caters to extensive industry applications in plumbing, sewage, irrigation, industrial and underground drainage. PPFL is also present in fittings segment which earns higher margin due to specialized nature and required precision.

Companies	UPVC	CPVC	HDPE	PPR
Supreme Industries	Y	Y	Y	Y
Astral polytechnik	Y	Y	Y	x
Finolex Industries	Y	Y	x	x
Prince Pipes	Y	Y	Y	Y
Jain Irrigation	Y	Y	Y	Y
Ashrivad Pipes	Y	Y	x	x

Source: Industry , Company, Geojit Research.



Plumbing Solutions Portfolio



SMARTFIT[®] CPVC
Plumbing Systems



EASYFIT[®] UPVC
Plumbing Systems



GREENFIT[®] PP-R
Plumbing & Industrial Piping Systems



RAINFIT[®] UPVC
Roofwater Systems

Irrigation Solutions



AQUAFIT[®] UPVC
Pressure & Non Pressure Agri Pipes & Fittings



SAFEFIT[®] UPVC
Borewell Systems

Sewage & Underground Drainage Portfolio



ULTRAFIT[®] UPVC
SWR Systems With World Class Seals



SILENTFIT[®] UPVC
Low Noise SWR Systems



FOAMFIT[®] UPVC
Underground Drainage Piping Systems



CORFIT[®] HDPE
Underground Double Wall Corrugated Pipes

Well diversified product portfolio and technical tie-up with global players

Technical tie-up to provide growth impetus...

With the tie-up with Lubrizol, the inventors and one of the largest manufacturers of CPVC for FlowGuard and Corzan brands would enable volume growth in plumbing/ industrial category along with improving the value mix. The Company also launched 4 additional products including EASYFIT RE specially designed to divert wastewater into a system where it can be recycled, CABLEFIT pipes manufactured using ultra-modern hi-tech machines for India’s rapidly growing infrastructural needs and GREENFIT PP-R systems designed for hot & cold water plumbing systems in buildings & Industrial piping installations. Further, PPFL launched StoreFit water tanks in wide range of sizes from 500-3000 ltrs, given significant opportunity in this segment which is currently dominated by unorganized players. Increasing concerns about water shortage, surge in population, increasing government regulation on waste water and aging water infrastructure, we expect demand to remain healthy for plastic storage tanks. We believe that given its technical collaboration and launch of new products would help the company achieving cost efficiencies, competitive advantage and optimize the production



processes leading to gaining market share.

Strategically located manufacturing units

PPFL’s manufacturing plants are located near raw material sources, ports, and principal markets, which reduces freight costs and improves cost efficiencies. The seventh manufacturing plant at Sangareddy in Telangana, commenced partial commercial production in January-21 has an estimated installed capacity of 51,943 tonnes per annum (TPA) that has further expanded our geographical presence and will help reduce freight costs. Further, company use 2 contract manufacturers – 1 In Jamshedpur and 1 in Hajipur (Bihar) to meet the rising demand. PPFL has adopted asset light model approach which is aimed at achieving an early-mover advantage and quick market share gains in these regions.

Capacity expansion

PPFL current capacity is 259000 MTPA. Currently, PPFL south markets are catered by plants in Athal and Haridwar. Recently, the Telangana greenfield plant has commenced its operations ahead of schedule and is currently operating at 4,000 MT. The total capacity of the plant is ~50,000 which will be executed in a phased manner over the next 2-3 years. This move shall aid PPFL in leveraging more opportunities in the Southern market as well as reducing the cost.

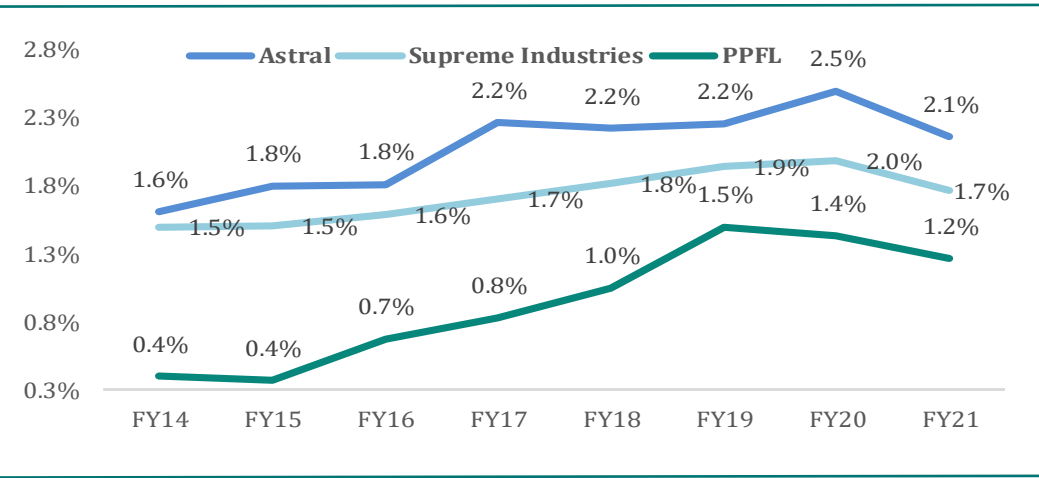
Key manufacturing locations of industry players

Companies	Manufacturing Locations
Supreme Industries	Maharashtra, Madhya Pradesh, West Bengal, Uttar Pradesh
Finolex Industries	Maharashtra, Gujarat
Astral	Gujarat, Tamil Nadu, Rajasthan, Maharashtra, Uttarakhand
Prince Pipes	Maharashtra, Tamil Nadu, Uttarakhand, Dadra and Nagar Haveli, Rajasthan & Telangana
Apollo Pipes	Uttar Pradesh, Chhattisgarh, Gujarat, Karnataka

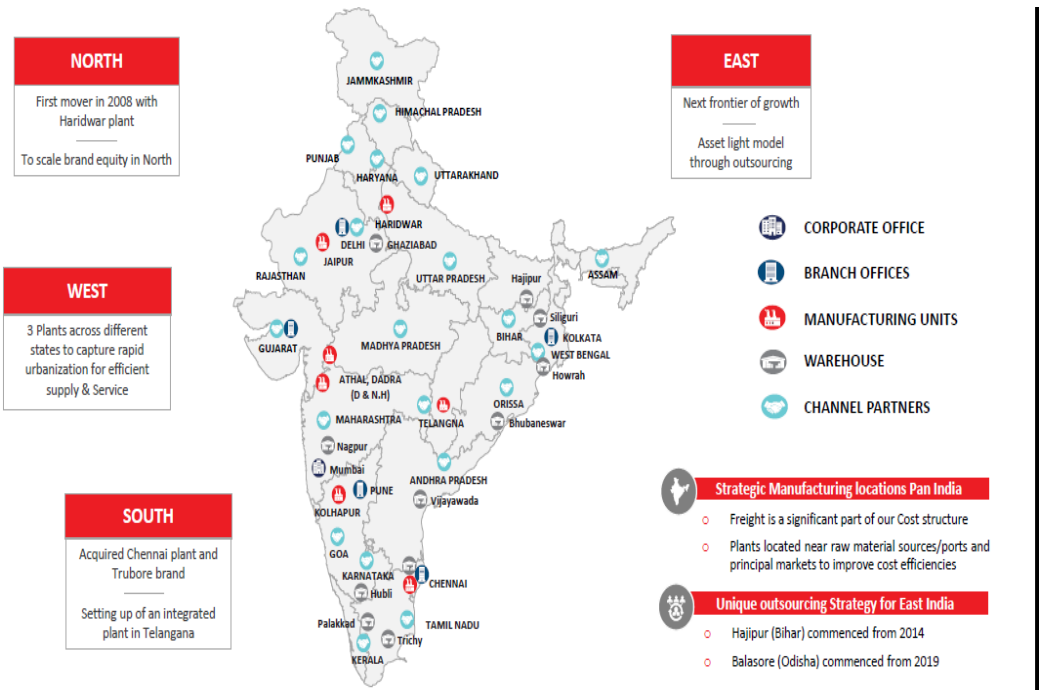
Source: Company, Geojit Research.

Robust manufacturing and well established distribution network.

Lower freight cost (as a % of net sales)

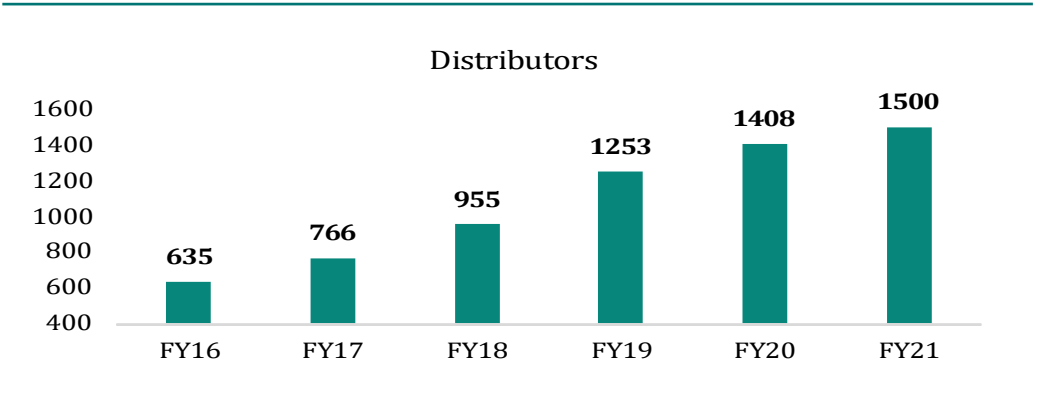


Source: Company, Geojit Research.



Robust and growing distribution network

The Company continues to make even deeper inroads into the urban, semi urban, Tier II, Tier III towns and strengthened its foothold in rural markets. With over 1500 Channel Partners and distributors spread across India, the Company has established long term, strong partnerships to ensure smooth and cohesive operations. In addition to our distribution network, we have 8 warehouses on lease to focus on efficient supply and timely services.



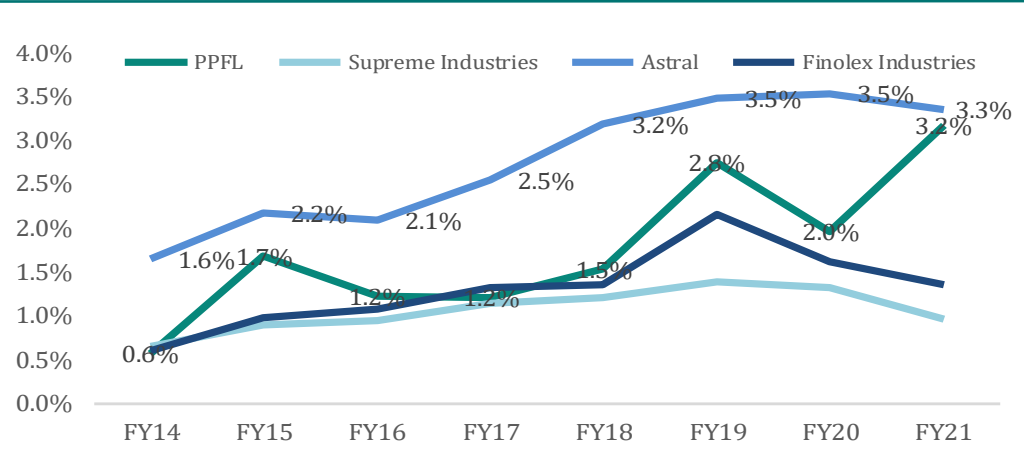
Source: Company, Geojit Research.

Ad-spends similar to large industry peers

Strong focus on brand building...

During FY20-21 fiscal, PPFL greater emphasis was on brand promotion through focused approach aimed at entrenching brand recall and customer engagement across India. To augment its brand aggressively, the company adopted various customer loyalty programs, below the line (BTL) promotions, above the line (ATL) promotions and social media communications. The cumulative efficacy of all branding and marketing efforts have led to Prince Pipes and Fittings being awarded Brand of The Year – Pipes by INEX Realty+. One such targeted brand engagement campaigns was with plumber community. Further, to enhance top-of-mind recall, in July 2020 Prince Pipes renewed its association with leading actor Akshay Kumar to reach out to Tier 2/3 regions and hyper local domains. Also extended this association for the water tank segment StoreFit, launched in June 2020 which is expected to grow at a high pace going forward.

Advertisement spends as a % net sales



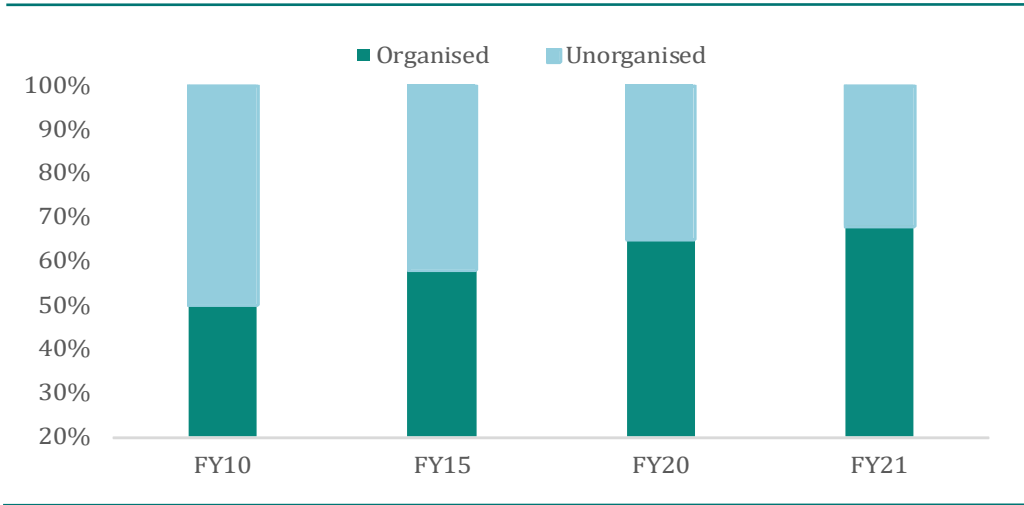
Source: Company, Geojit Research.

Organised players gaining ground

Large organized players to benefit...

The organized players in pipe & fittings seems to gaining strong growth momentum led by double digit revenue growth superior earnings. Post implementation of GST the pricing difference between organized and unorganized have narrowed. While due to pandemic shortage of products and higher raw materials prices have has impacted the unorganized sector as well as small organized players. The working capital situation has deteriorated while this opportunity is utilized by large players whose balance sheets are healthy. Apart from this, all industry players should get BIS certification by 30th September and phasing out lead based stabilizers for manufacture of PVC. Given this scenario, we expect unorganized sector & mid-size players could be impacted and large players like PPFL could accelerate their market share gains. Currently the unorganized sector in piping industry is estimated to be at ~35%.

Organised players gaining...



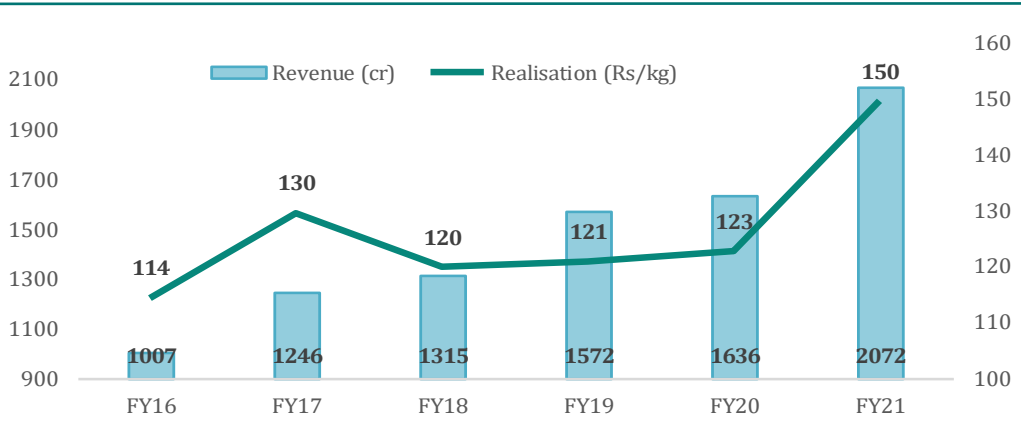
Source: Company, Geojit Research.

Financials

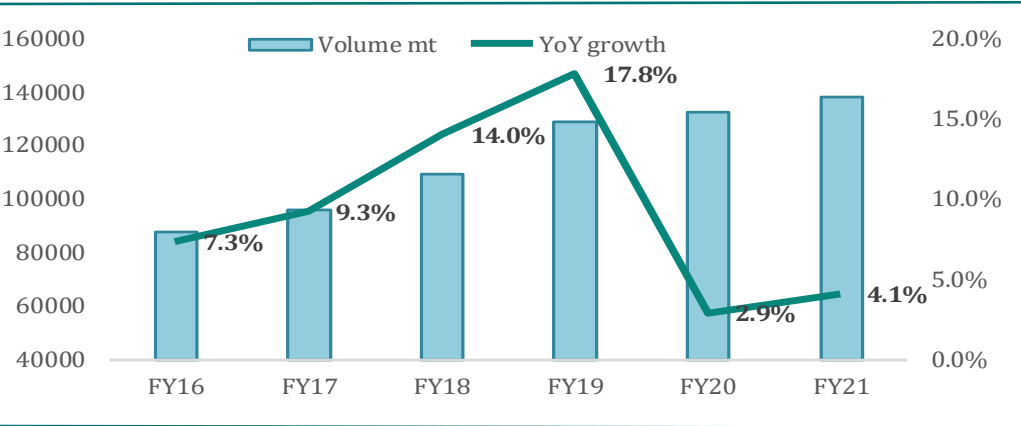
Revenue growth healthy...expect growth momentum to continue

PPFL revenue grew by 15% CAGR over FY16-21 led by higher contribution from plumbing segments in the sales mix. Overall volume grew by 10% CAGR while realization improved by 6% CAGR over the same period. Due to the pandemic the volume growth was at 4% CAGR over FY19-21. However, on account of higher polymer price the realization grew by 11% CAGR leading to higher revenue growth of 15% CAGR. Going ahead, volume growth is expected to pick-up going ahead on account of unlocking and improved demand from construction sector. We expect volume and revenue to grow by 13% & 20% CAGR over FY21-24E .

Revenue growth trend



Source: Company, Geojit Research.



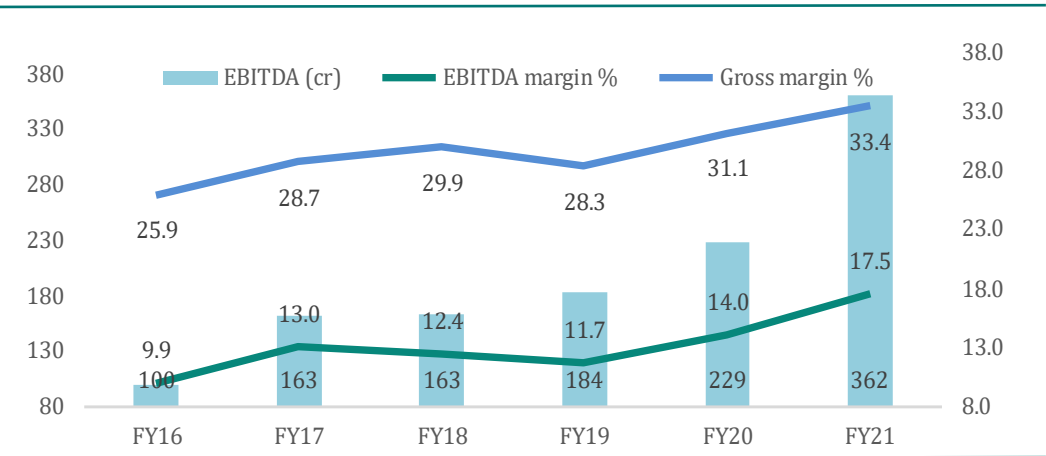
Source: Company, Geojit Research.

Although revenue growth was strong in last 2 years, volume growth was significantly lower with average growth of 3.5% over FY20-21, largely due to Covid-19 pandemic. Post pandemic restrictions, the demand has bounced back, while the outlook for infrastructure and construction sector has improved significantly on account of government push for revival in growth. We expect volume growth to normalize in the near term.

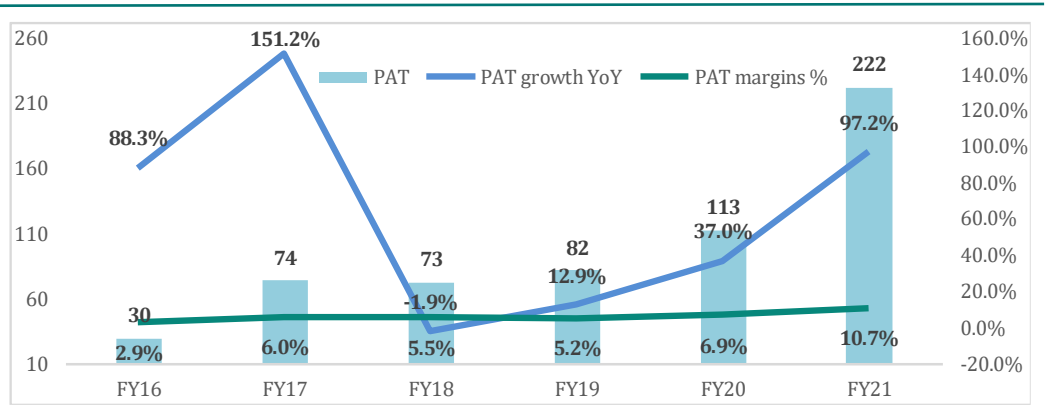
Superior earnings profilemargin expands

PPFL’s EBITDA and Profitability grew by 29% & 50% CAGR over FY16-21. While EBITDA margin expanded by 760bps to 17.5% largely due to 750bps improvement in gross margin, largely propelled by improvement in product mix. Over FY20-FY21 the improvement in EBITDA margin was 350bps which was largely due inventory gains on account of increase in raw material prices. In the near term we expect the raw material price to remain high. However, given limited scope further inventory gain we expect EBITDA margin to remain in the range of 15%. We expect EBITDA and Profitability grew by 17% & 18% CAGR over FY21-24E led by better volumes and superior product mix.

PAT growth



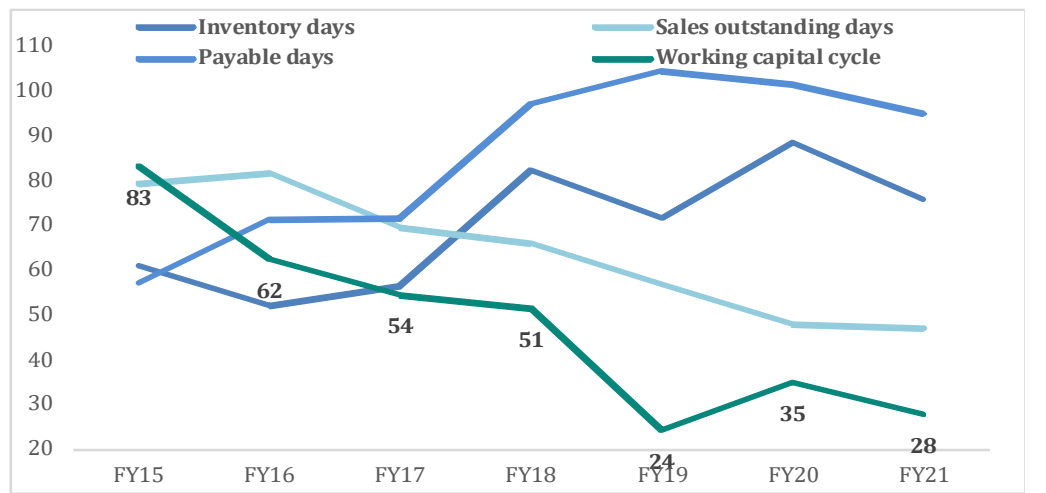
Source: Company, Geojit Research.



Source: Company, Geojit Research.

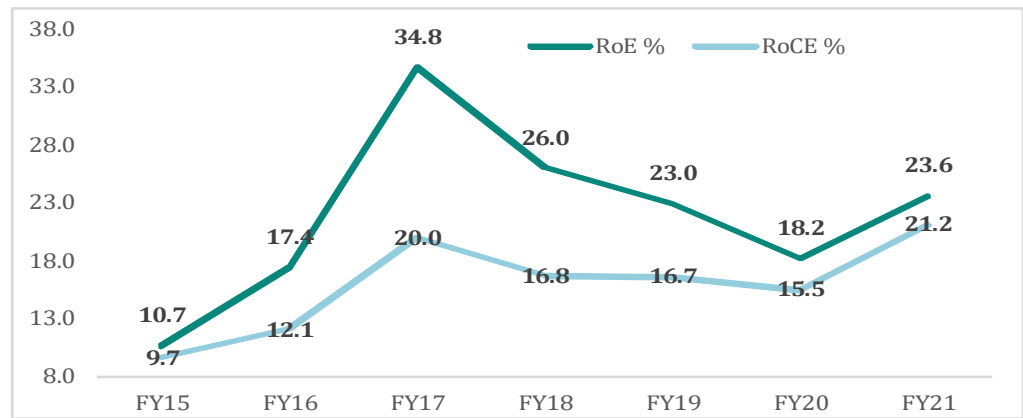
Strong cash flow...reduction in working capital & superior return ratios

Over FY16-21, PPFL’s generated strong cash flow on account of superior profitability and reduction in working capital cycle. Average of FCF generated during this period was Rs.243cr. The working capital cycle reduced from 62 days in FY16 to 28 days in FY21 led by improvement in operational efficiency. With major capex out of the way, free cash flow generated might also used for inorganic opportunities if may arise.



Source: Company, Geojit Research.

RoE & RoCE



Source: Company, Geojit Research.

Risks

Higher raw material prices could be dampener

PVC prices has significantly increased on account of supply disruption post pandemic and sharp rise in crude prices. In FY21 all the industry players reported significant margin expansion due to inventory gains. However, higher input cost expected to impact the margin while volume growth may soften if this trend continues. This was evident, in Q1FY22, as the demand for agricultural pipes was impacted by higher prices, while unseasonal rains also impacted. Current PVC prices have peaked and might continue to be at elevated levels in the near term, however we expect gradual reduction in these prices in the medium term.

Real estate sector not out of the woods yet

Key demand for plastic pipes –Plumbing- 35-40%, irrigation -45-50% and sewerage & water transportation-10-15% and others-5%. Currently, real estate sector continue to be impacted by higher inventory and balance sheet deterioration. However, with lower interest rate and higher focus on low cost housing & government push on housing is expected support recovery.

Outstanding litigation against promoters

The Promoters and Directors, Jayant Shamji Chheda and Heena Parag Chheda, are partners in M/s Aditya Developers, a partnership firm (own 10% each). Aditya Developers had entered into a joint venture (JV) agreement with Montana Developers (December 30, 2010), which went into arbitration proceedings. Montana Developers filed a criminal complaint against Aditya Developers and its partners, including the two of its Promoters and Directors, Jayant Shamji Chheda and Heena Parag Chheda. Currently, the matter is under consideration of court. As per management, the agreement with Montana Developers were in entered by the promoters in their personal capacity will have no impact company. Further, value of land parcel is sufficient enough to cover if any liability which may arise in future related to this litigation.

Standalone Financials

PROFIT & LOSS

Y.E March (Rs.cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,636	2,072	2,668	3,092	3,599
% change	4.1	26.6	28.8	15.9	16.4
EBITDA	229	362	408	495	587
% change	24.3	58.1	12.9	21.2	18.6
Depreciation	52	59	70	83	97
EBIT	177	302	338	412	489
Interest	33	21	17	20	25
Other Income	7	18	10	15	18
PBT	151	299	332	407	482
% change	35.3	98.7	10.9	22.7	18.5
Tax	38	77	83	102	121
Tax Rate	25.3%	25.8%	25.0%	25.0%	25.0%
Reported PAT	113	222	249	305	362
Adj*	0	0	0	0	0
Adj PAT	113	222	249	305	362
% change	37.0	97.2	12.1	22.7	18.5
No. of shares (cr)	11.0	11.0	11.0	11.0	11.0
Adj EPS (Rs.)	10	20	23	28	33
% change	12.1	97.2	12.1	22.7	18.5
DPS (Rs.)	0	0	0	0	0
CEPS (Rs.)	14.9	25.6	29.0	35.3	41.7

CASH FLOW

Y.E March (Rs.cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	164	281	319	388	459
Non-cash adj.	46	41	17	20	25
Changes in W.C	(365)	(15)	(240)	(220)	(179)
C.F. Operation	(155)	307	95	188	305
Capital exp.	(119)	(145)	(156)	(102)	(165)
Change in inv.	8	60	(1)	(20)	(10)
Other invest.CF	0	0	-	-	-
C.F - Investment	(111)	(86)	(157)	(122)	(175)
Issue of equity	339	(1)	-	-	-
Issue/repay debt	(39)	(176)	81	(30)	(50)
Dividends paid	(11)	(17)	-	-	-
Other finance.CF	(33)	(20)	(17)	(20)	(25)
C.F - Finance	257	(213)	64	(50)	(75)
Chg. in cash	(9)	8	2	16	55
Closing cash	0	8	11	27	82

BALANCE SHEET

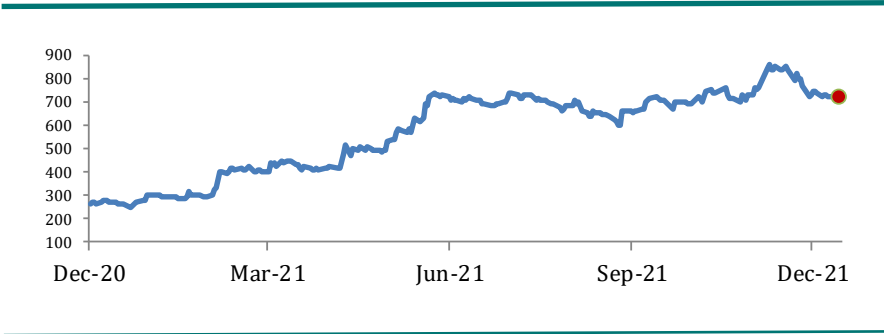
Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	0	8	11	27	82
Accounts Receivable	180	353	366	449	523
Inventories	345	227	519	508	595
Other Cur. Assets	389	436	454	568	668
Investments	1	1	6	26	36
Gross Fixed Assets	633	695	830	970	1,120
Net Fixed Assets	481	495	560	617	670
CWIP	8	77	100	65	80
Intangible Assets	8	8	6	3	3
Def. Tax (Net)	(13)	(13)	(13)	(13)	(13)
Other Assets	(0)	0	0	0	0
Total Assets	1,397	1,593	2,008	2,250	2,644
Current Liabilities	284	433	514	478	554
Provisions	13	13	18	21	28
Debt Funds	258	100	181	151	101
Other Liabilities	4	3	3	3	3
Equity Capital	110	110	110	110	110
Reserves & Surplus	728	933	1,182	1,487	1,849
Shareholder's Fund	838	1,043	1,292	1,597	1,959
Total Liabilities	1,397	1,593	2,008	2,250	2,644
BVPS (Rs.)	174	217	269	333	408

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	14.0	17.5	15.3	16.0	16.3
EBIT margin (%)	10.8	14.6	12.7	13.3	13.6
Net profit mgn.(%)	6.9	10.7	9.3	9.9	10.0
ROE (%)	18.2	23.6	21.3	21.1	20.3
ROCE (%)	15.5	21.2	20.0	19.9	20.0
W.C & Liquidity					
Receivables (days)	48.0	47.0	49.2	48.1	49.3
Inventory (days)	88.4	75.7	71.2	85.9	79.7
Payables (days)	101.5	94.9	90.3	83.0	74.5
Current ratio (x)	3.1	2.3	2.5	3.1	3.2
Quick ratio (x)	0.6	0.8	0.7	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	3.0	3.1	3.5	3.4	3.4
Total asset T.O (x)	1.4	1.4	1.5	1.5	1.5
Int. coverage ratio (x)	5.3	14.6	20.1	20.7	19.5
Adj. debt/equity (x)	0.3	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	4.7	3.7	3.0	2.5	2.1
EV/EBITDA (x)	33.7	20.9	19.3	15.8	13.2
P/E (x)	68.5	34.7	31.0	25.3	21.3
P/BV (x)	4.1	3.2	2.6	2.1	1.7



PRICE HISTORY



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
29th December, 2021	Buy	855

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated		-	

Definition:

- Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.
- Accumulate:** Partial buying or to accumulate as CMP dips in the future.
- Hold:** Hold the stock with the expected target mentioned in the note.
- Reduce:** Reduce your exposure to the stock due to limited upside.
- Sell:** Exit from the stock.
- Not rated :** The analyst has no investment opinion on the stock.

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