Prince Pipes

Sharp inventory losses leads to negative EBITDA

We maintain our BUY rating on Prince Pipes, with a revised lower target price of INR 645/sh (18.5x its Sep-24E EBITDA). We continue to like Prince for its large product portfolio, robust pan-India distribution, and low exposure (~30-35%) to price-sensitive agri/rural markets. Prince Pipes reported weak performance in Q2FY23 as it delivered both a YoY volume decline (-10%) and an EBITDA loss of INR 113mn (OPM: -1.8%). The performance is adversely impacted due to continued dealer destocking and sharp inventory losses—INR 0.8-0.9bn or INR 22/kg in Q2FY23!

- **Q2FY23 performance:** Prince Pipes reported weak performance in Q2FY23 as it delivered both a YoY volume decline (-10%) and an EBITDA loss of INR 113mn (OPM: -1.8%). The performance is adversely impacted due to continued dealer destocking and sharp inventory losses—INR 0.8-0.9bn or INR 22/kg in Q2! Resin prices corrected ~26% QoQ in Q2, driving down its NSR by 14% QoQ. Inventory write-down pulled down the gross margin to 13% vs 21/28% QoQ/YoY, leading to an EBITDA loss.
- **Outlook:** Prince reported INR 1.1-1.2bn inventory loss in H1FY22 (INR 17 /kg of sales). In Q3, the company expects much lower inventory losses, as the resin price fall has slowed down. It also expects healthy demand in H2FY23 as low prices should boost pent-up agri demand. The company noted a normalised EBITDA margin outlook of ~12-15% (once the resin price volatility wanes). It intends to capitalise on its distribution reach by launching a bathware segment in Mar-23. Factoring in the sharp inventory losses in Q2 and continued resin price fall from Oct to Nov, we have cut our FY23/24/25E EBITDA estimates by 37/15/14% respectively.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Pipes sales (K MT)	38.5	42.8	-10.2	31.3	23.1	138.3	139.0	152.9	175.9	202.3
NSR (INR/kg)	166	178	-6.8	193	-14.4	150	191	155	147	149
EBITDA (INR/kg)	-3	29	-110.3	14	-121.0	26	30	13	19	20
Net Sales	6,365	7,610	-16.4	6,041	5.4	20,715	26,568	23,672	25,862	30,187
EBITDA	-113	1,227		439		3,616	4,157	1,953	3,347	4,041
EBITDAM (%)	*-1.8*	*16.1*		*7.3*		*17.5*	*15.6*	*8.3*	*12.9*	*13.4*
APAT	-241	761		160		2,218	2,495	795	1,811	2,267
Diluted EPS (INR)	-2.2	6.9		1.4		20.2	22.6	7.2	16.4	20.5
EV / EBITDA (x)						17.2	15.6	32.0	18.5	15.0
P/E (x)						28.7	25.6	80.4	35.3	28.2
RoE (%)						*23.6*	*21.6*	*6.1*	*12.8*	*14.3*

Source: Company, HSIE Research

Estimates revision summary

INR bn	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	25.43	23.67	(6.9)	28.36	25.86	(8.8)	33.11	30.19	(8.8)
EBITDA	3.11	1.95	(37.2)	3.92	3.35	(14.7)	4.71	4.04	(14.3)
APAT	1.67	0.80	(52.3)	2.27	1.81	(20.1)	2.79	2.27	(18.8)

Source: Company, HSIE Research

BUY

CMP *(as on 10 Nov 2022)*	INR 573
Target Price	INR 645
NIFTY	18,028

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 760	INR 645
EBITDA revision %	FY23E (37.2)	FY24E (14.7)

KEY STOCK DATA

Bloomberg code	PRINCPIP IN
No. of Shares (mn)	111
MCap (INR bn) / ($ mn)	63/775
6m avg traded value (INR mn)	99
52 Week high / low	INR 866/510

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.8)	(11.2)	(31.7)
Relative (%)	(8.9)	(22.7)	(32.1)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	62.94	62.94
FIs & Local MFs	14.51	14.58
FPIs	4.15	3.98
Public & Others	18.40	18.50
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Rating Criteria

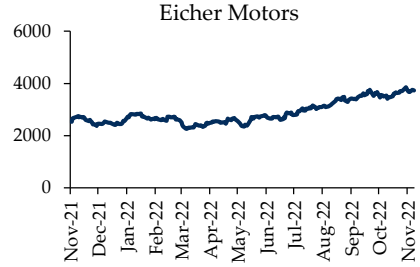
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

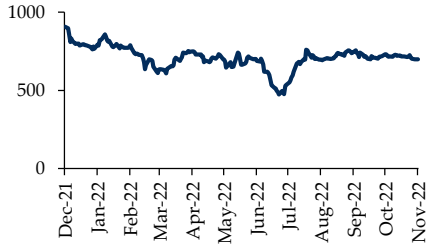
Analyst	Company Covered	Qualification	Any holding in the stock
Aniket Mhatre	Eicher Motors	MBA	NO
Sonaal Sharma	Eicher Motors	MBA	NO
Sahej Mittal	Star Health and Allied Insurance	ACA	NO
Krishnan ASV	Star Health and Allied Insurance	PGDM	NO
Harshad Katkar	Gujarat Gas, Petronet LNG, Deepak Nitrite, Galaxy Surfactants	MBA	NO
Nilesh Ghuge	Gujarat Gas, Petronet LNG, Deepak Nitrite, Galaxy Surfactants	MMS	NO
Akshay Mane	Gujarat Gas, Petronet LNG, Deepak Nitrite, Galaxy Surfactants	PGDM	NO
Rutvi Chokshi	Gujarat Gas, Petronet LNG, Deepak Nitrite, Galaxy Surfactants	CA	NO
Parikshit Kandpal	Prestige Estates, Kolte Patil Developers, ITD Cementation	CFA	NO
Manoj Rawat	Prestige Estates, Kolte Patil Developers, ITD Cementation	MBA	NO
Nikhil Kanodia	Prestige Estates, Kolte Patil Developers, ITD Cementation	MBA	NO
Rajesh Ravi	Nuvoco Vistas, Prince Pipes, Orient Cement, Somany Ceramics	MBA	NO
Keshav Lahoti	Nuvoco Vistas, Prince Pipes, Orient Cement, Somany Ceramics	CA	NO
Anuj Upadhyay	Borosil Renewables	MBA	NO
Hinal Choudhary	Borosil Renewables	CA	NO
Amit Chandra	Teamlease Services	MBA	NO
Vivek Sethia	Teamlease Services	CA	NO

1 Yr Price Movement

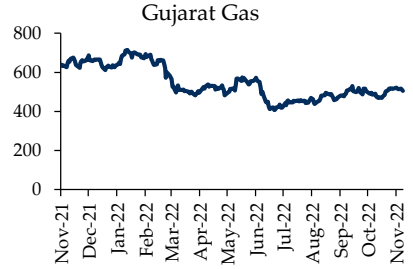
Eicher Motors



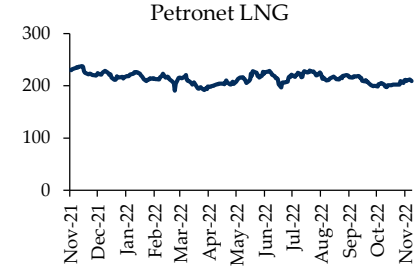
Star Health



Gujarat Gas



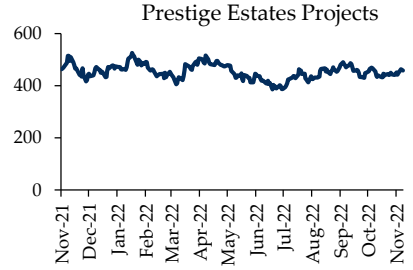
Petronet LNG



Deepak Nitrite Ltd



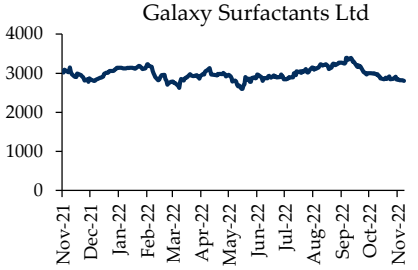
Prestige Estates Projects



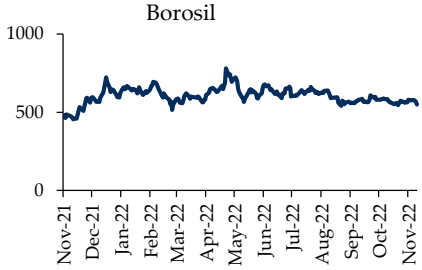
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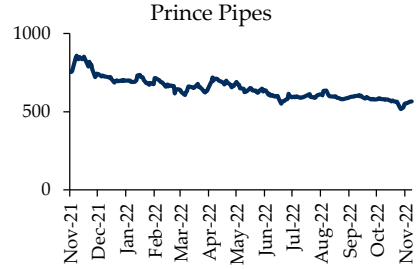
Galaxy Surfactants Ltd



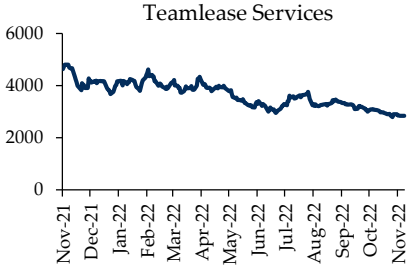
Borosil



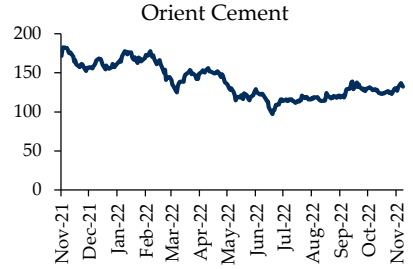
Prince Pipes



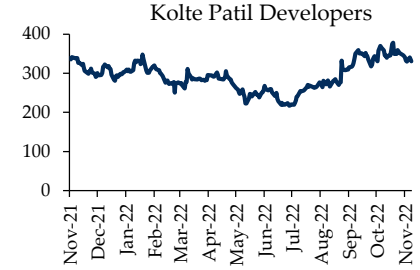
Teamlease Services



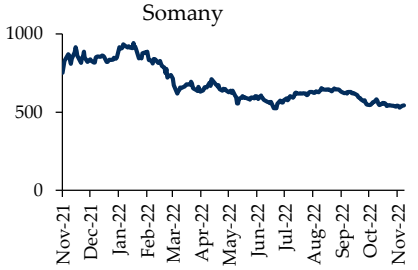
Orient Cement



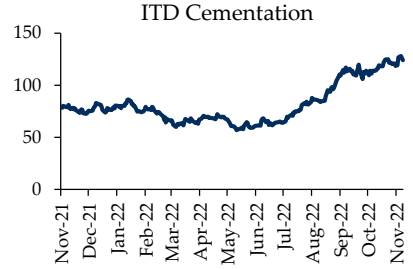
Kolte Patil Developers



Somany



ITD Cementation



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