Prince Pipes & Fittings (PRINCPIP IN)

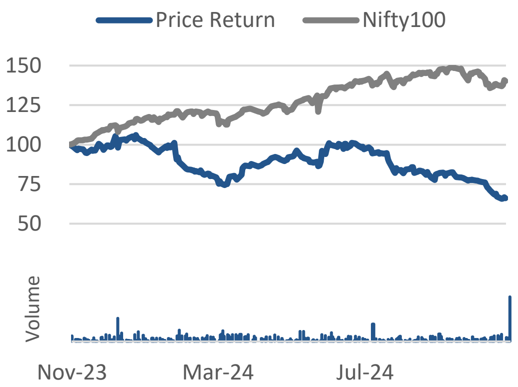
Weak 2QFY25; Significant hit on margins due inventory destocking

Investment Focus

Maintain OUTPERFORM

Rating	OUTPERFORM
Current Price	Rs476.40
Target Price	Rs664.00
Market cap	Rs52.67bn / US$0.62bn
Daily traded value (3mth)	US$0.12mn
Shares in issue	110.56mn
Free float (%)	35%
1 yr high - low	Rs756.90-Rs473.00

Note: Current Price Rs476.40 is the close price on 7 Nov 2024



Source: Factset

	1mth	3mth	12mth
Absolute	-14.2%	-19.4%	-22.9%
Absolute USD	-14.6%	-19.7%	-23.9%
Relative to Nifty100	-13.9%	-19.8%	-65.5%

Rs mn	Mar-24A	Mar-25E	Mar-26E	Mar-27E
Revenue	25,687	27,439	31,585	36,610
Revenue (+/-)	-5%	7%	15%	16%
Net profit	1,646	1,277	1,950	2,635
Net profit (+/-)	36%	-22%	53%	35%
Diluted EPS (Rs)	14.88	11.55	17.64	23.84
GPM	29.2%	28.5%	29.5%	30.0%
ROE	11.3%	8.0%	11.1%	13.4%
P/E	32	41	27	20

Source: Company data, HTI

Weak 2QFY25; PVC prices impacted performance

In 2QFY25, PRINCPIP revenue de-grew by 5.2% YoY to Rs6,221mn (est. Rs5,842mn). The finished goods sales volume was up 4% YoY to 43,301MT while realizations were lower by 9% YoY due to lower PVC prices. The EBITDA saw significant de-growth of 51% YoY to Rs457mn (est. Rs527mn) and margins contracted by 700bps YoY to 7.3%. EBITDA Margins were lower mainly due to inventory loss of Rs120-150mn, 2% trade incentive passed on to the channel and Rs30-40mn loss in the bathware division. The EBITDA per kg decreased by 53% YoY to Rs10.5/-. Thus, Adj. PAT de-grew by 72.1% YoY to Rs147mn (est Rs209mn).

H2FY25 to better with favorable PVC prices

In Q2FY25, PVC prices have been unstable with drop of ~16% which led to channel inventory de-stocking. Despite headwinds, PRINCPIP witnessed 4% YoY volume growth supported by discount offered to the channel. In November, the PVC prices are picking up and post ADD implementation it is likely to further go up. This shall commence the re-stocking cycle. The company has also announced first phase of price hike. Overall H2FY25 is likely to be better. The company guides 8-10% volume growth for FY25 with H1FY25 volumes up by 8.6% YoY.

New capacities to drive growth

The Begusarai plant is planned to be commissioned by Q4FY25 (earlier guided Dec'24) with phase 2 expansion preponed to phase 1 making it total capacity of 55,000MT. This capacity shall add to the volume growth as East India is a faster growing market with Prince being among the top two players. This shall strengthen the supply chain and reduce the freight costs. Moreover, the company plans to debottleneck few of its existing capacities with sufficient land bank availability. PRINCPIP aims to decentralize its manufacturing going forward.

Aquel progression on track

'Aquel' launched its first retail showroom in Delhi and Haryana. In Q2FY25, revenue was Rs.70mn incurring EBITDA loss of Rs40mn. The company expects Rs70mn run-rate to continue with Aquel contributing Rs250mn to the topline in FY25. Also the management guides that this segment will be EBITDA positive from Q3FY26.

Valuation and recommendation

Based on recent quarter performance and outlook, we have cut our PAT estimates for FY25E/FY26E by 23%/25% respectively and introduced FY27E. We estimate Revenue and PAT CAGR of 13% and 17% over FY24-27E. We maintain our PE multiple to 32x and roll forward our valuation on Sept'26 EPS of Rs20.7/- arriving at a Price target of Rs664/- (earlier Rs755/-) and maintain Outperform rating on the stock.

Risk - Loss of market share, and significant cost/time overrun of Bihar greenfield project are the key downside risks.

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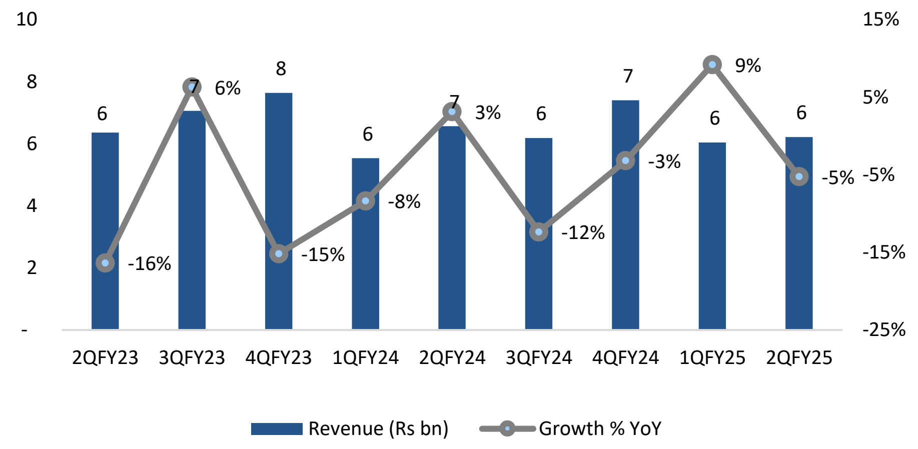
Consolidated - Quarterly Earnings Model (Rs mn)

Y/E March	FY24				FY25				FY23	FY24	FY25	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	%
Gross Sales	**5,536**	**6,565**	**6,187**	**7,401**	**6,045**	**6,221**	**6,690**	**8,483**	**27,109**	**25,688**	**5,842**	6
YoY Change (%)	-8.4	3.1	-12.4	-3.2	9.2	-5.2	8.1	14.6	2.0	-5.2	-11.0	
Total Expenditure	5,082	5,623	5,430	6,479	5,462	5,764	5,960	7,457	24,606	22,613	5,315	
EBITDA	**453**	**942**	**757**	**923**	**583**	**457**	**729**	**1,026**	**2,503**	**3,074**	**527**	-13
Margins (%)	8.2	14.3	12.2	12.5	9.6	7.3	10.9	12.1	9.2	12.0	9.0	
Depreciation	218	225	229	239	257	276	280	296	830	912	260	
Interest	17	7	27	14	14	16	20	30	110	65	25	
Other Income	38	40	30	53	26	39	35	36	86	161	42	
PBT before EO expense	**256**	**749**	**531**	**723**	**337**	**204**	**464**	**736**	**1,648**	**2,259**	**284**	
Extra-Ord expense	0	-179	0	0	0	0	0	0	0	-179	0	
PBT	**256**	**928**	**531**	**723**	**337**	**204**	**464**	**736**	**1,648**	**2,438**	**284**	-28
Tax	59	222	154	177	90	57	123	195	434	611	75	
Rate (%)	23.2	23.9	29.0	24.4	26.7	28.0	26.5	26.5	26.3	25.1	26.5	
Minority Interest & Profit/Loss of Asso. Co	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	**196**	**706**	**377**	**546**	**247**	**147**	**341**	**541**	**1,214**	**1,827**	**209**	-30
Adj PAT	**196**	**527**	**377**	**546**	**247**	**147**	**341**	**541**	**1,214**	**1,647**	**209**	
YoY Change (%)	22.4	-318.6	6.4	-41.9	25.8	-72.1	-9.4	-0.9	-51.3	35.7	-60.4	
Margins (%)	3.5	8.0	6.1	7.4	4.1	2.4	5.1	6.4	4.5	6.4	3.6	

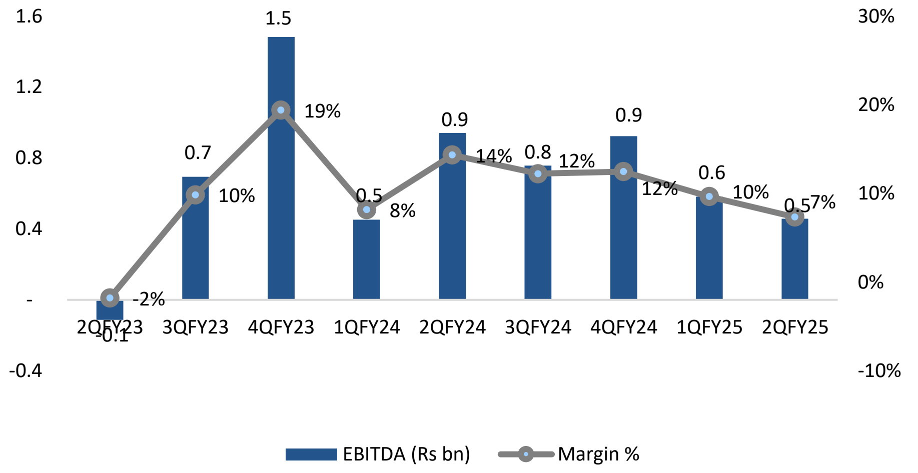
Source: Company, HTI

Quarterly Revenue trend (Rs bn)



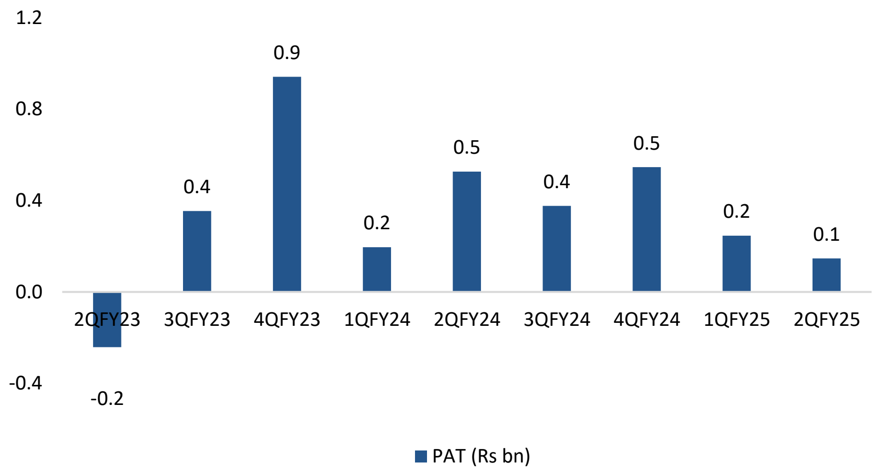
Source: HTI

Quarterly EBITDA trend and EBITDA margin trend



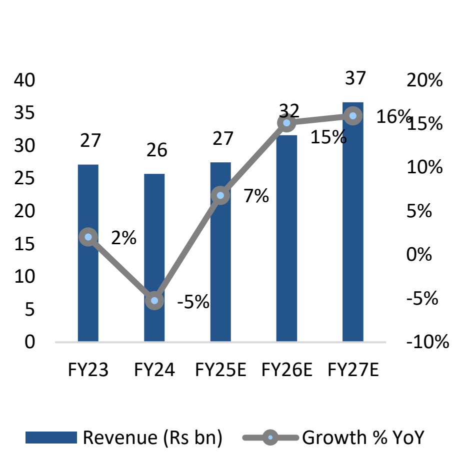
Source: HTI

Quarterly Adj. PAT trend (Rs bn)



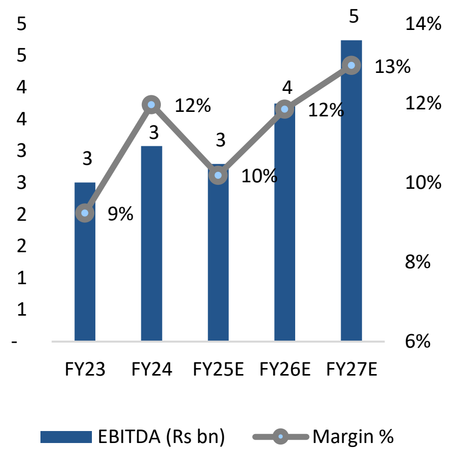
Source: HTI

Revenue trend (Rs bn)



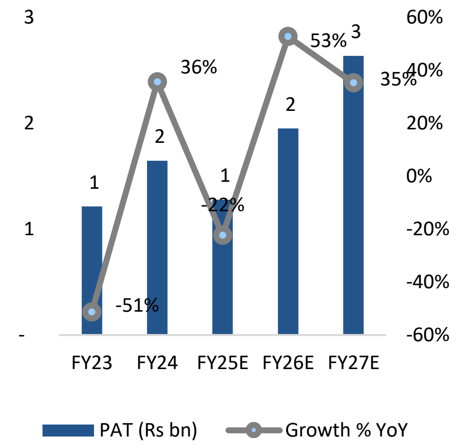
Source: HTI

EBITDA and EBITDA margin trend



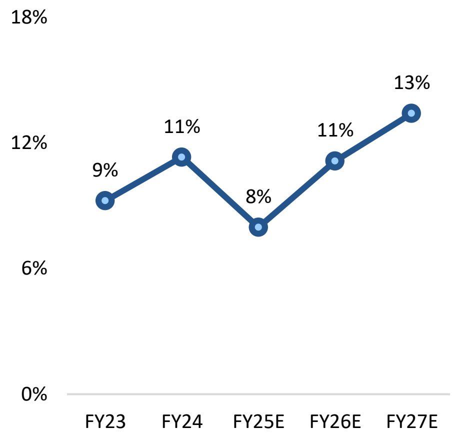
Source: HTI

Adj. PAT trend (Rs bn)



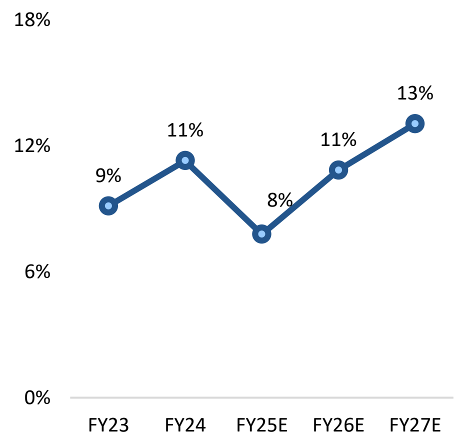
Source: HTI

RoE trend (%)



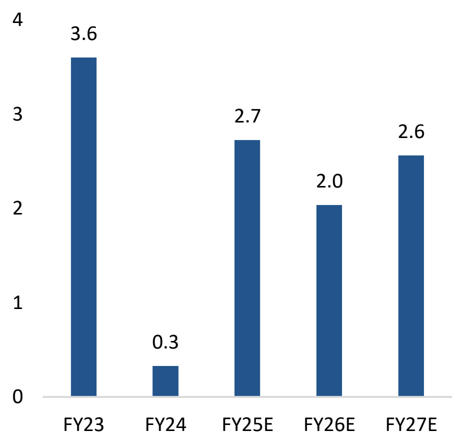
Source: HTI

RoCE trend (%)



Source: HTI

CFO trend (Rs bn)



Source: HTI

Consolidated Income statement (Rs mn)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	**27,109**	**25,687**	**27,439**	**31,585**	**36,610**
Change (%)	2.0	-5.2	6.8	15.1	15.9
COGS	20,918	18,193	19,616	22,268	25,627
Employees Cost	1,098	1,477	1,779	1,927	2,087
Power & Fuel	559	616	659	742	860
Other Expenses	2,031	2,327	2,590	2,906	3,295
Total Expenditure	**24,606**	**22,613**	**24,643**	**27,842**	**31,869**
% of Sales	90.8	88.0	89.8	88.2	87.1
EBITDA	**2,503**	**3,074**	**2,796**	**3,743**	**4,741**
Margin (%)	9.2	12.0	10.2	11.9	13.0
Depreciation	830	912	1,109	1,148	1,228
EBIT	**1,673**	**2,162**	**1,687**	**2,595**	**3,513**
Int. and Finance Charges	110	65	81	100	110
Other Income	86	161	137	158	183
PBT bef. EO Exp.	**1,648**	**2,258**	**1,743**	**2,653**	**3,586**
EO Items	0	179	0	0	0
PBT after EO Exp.	**1,648**	**2,438**	**1,743**	**2,653**	**3,586**
Total Tax	434	613	466	703	950
Tax Rate (%)	26.3	25.1	26.7	26.5	26.5
Minority Interest	0	0	0	0	0
Reported PAT	**1,214**	**1,825**	**1,277**	**1,950**	**2,635**
Adjusted PAT	**1,214**	**1,646**	**1,277**	**1,950**	**2,635**
Change (%)	-51.3	35.5	-22.4	52.7	35.2
Margin (%)	4.5	6.4	4.7	6.2	7.2

Source: HTI

Consolidated Balance sheet (Rs mn)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1,106	1,106	1,106	1,106	1,106
Total Reserves	12,534	14,338	15,505	17,321	19,797
Net Worth	**13,640**	**15,444**	**16,610**	**18,427**	**20,902**
Total Loans	581	1,144	1,144	1,144	1,144
Deferred Tax Liabilities	137	191	191	191	191
Capital Employed	**14,358**	**16,779**	**17,945**	**19,762**	**22,237**
Gross Block	10,271	12,349	13,749	14,949	16,149
Less: Accum. Deprn.	3,465	4,377	5,486	6,634	7,862
Net Fixed Assets	**6,806**	**7,973**	**8,264**	**8,316**	**8,287**
Capital WIP	236	354	354	354	354
Total Investments	**920**	**382**	**382**	**382**	**382**
Current Investments	917	379	379	379	379
Curr. Assets, Loans&Adv.	**10,581**	**12,521**	**14,077**	**16,552**	**19,937**
Inventory	4,256	4,379	4,772	5,391	6,171
Account Receivables	4,150	5,849	5,638	6,490	7,523
Cash and Bank Balance	1,244	777	2,047	2,806	4,082
Loans and Advances	930	1,516	1,620	1,865	2,161
Curr. Liability & Prov.	**4,184**	**4,453**	**5,134**	**5,845**	**6,725**
Account Payables	3,202	2,491	3,038	3,433	3,929
Other Current Liabilities	656	1,758	1,878	2,161	2,505
Provisions	327	204	218	251	291
Net Current Assets	**6,396**	**8,068**	**8,943**	**10,707**	**13,211**
Appl. of Funds	**14,358**	**16,779**	**17,945**	**19,761**	**22,237**

Source: HTI

Key Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)					
EPS	**11.0**	**14.9**	**11.6**	**17.6**	**23.8**
Cash EPS	18.5	23.1	21.6	28.0	34.9
BV/Share	123.4	139.7	150.2	166.7	189.1
DPS	0.0	1.0	1.0	1.2	1.4
Payout (%)	0.0	6.1	8.7	6.8	6.1
Valuation (x)					
P/E	42.8	31.6	40.7	26.7	19.7
Cash P/E	25.4	20.3	21.8	16.8	13.4
P/BV	3.8	3.4	3.1	2.8	2.5
EV/Sales	1.9	2.0	1.8	1.6	1.3
EV/EBITDA	20.1	16.9	18.1	13.3	10.3
Dividend Yield (%)	0.0	0.2	0.2	0.3	0.3
FCF per share	24.0	-14.3	12.0	7.5	12.3
Return Ratios (%)					
RoE	9.2	11.3	8.0	11.1	13.4
RoCE	9.1	11.3	7.8	10.8	13.1
RoIC	9.7	11.9	8.1	12.2	15.3
Working Capital Ratios					
Fixed Asset Turnover (x)	2.6	2.1	2.0	2.1	2.3
Asset Turnover (x)	1.9	1.5	1.5	1.6	1.6
Inventory (Days)	57	62	63	62	62
Debtor (Days)	56	83	75	75	75
Creditor (Days)	43	35	40	40	39
Leverage Ratio (x)					
Current Ratio	2.5	2.8	2.7	2.8	3.0
Interest Cover Ratio	15.2	33.3	20.8	25.9	31.9
Net Debt/Equity	-0.1	0.0	-0.1	-0.1	-0.2

Source: HTI

Consolidated Cashflow statement (Rs mn)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	1,648	2,258	1,743	2,653	3,586
Depreciation	830	912	1,109	1,148	1,228
Interest & Finance Charges	63	49	-56	-58	-73
Direct Taxes Paid	-401	-733	-466	-703	-950
(Inc)/Dec in WC	1,473	-2,151	395	-1,005	-1,229
CF from Operations	**3,613**	**335**	**2,725**	**2,035**	**2,562**
Others	-11	-6	0	0	0
CF from Operating incl EO	**3,602**	**329**	**2,725**	**2,035**	**2,562**
(Inc)/Dec in FA	-950	-1,908	-1,400	-1,200	-1,200
Free Cash Flow	**2,651**	**-1,579**	**1,325**	**835**	**1,362**
(Pur)/Sale of Investments	-531	586	0	0	0
Others	30	51	137	158	183
CF from Investments	**-1,452**	**-1,272**	**-1,263**	**-1,042**	**-1,017**
Issue of Shares	-919	0	0	0	0
Inc/(Dec) in Debt	0	560	0	0	0
Interest Paid	-110	-46	-81	-100	-110
Dividend Paid	-221	0	-111	-133	-160
Others	28	-39	0	0	0
CF from Fin. Activity	**-1,222**	**475**	**-192**	**-233**	**-270**
Inc/Dec of Cash	**928**	**-467**	**1,270**	**759**	**1,275**
Opening Balance	316	1,244	777	2,047	2,806
Closing Balance	**1,244**	**777**	**2,047**	**2,806**	**4,082**

Source: HTI

APPENDIX

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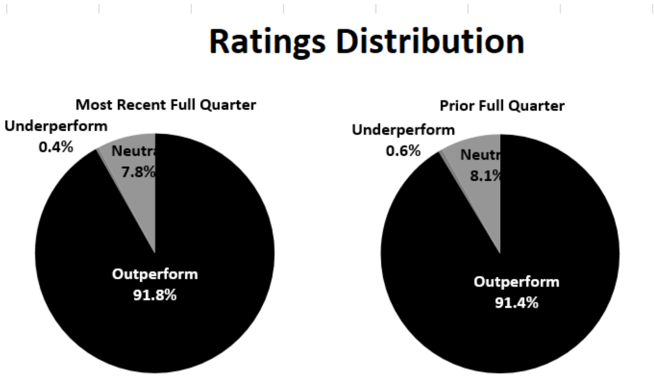
Rating Distribution



Haitong International Equity Research Ratings Distribution, as of September 30, 2024

	Outperform	Neutral (hold)	Underperform
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IB clients*	3.5%	4.4%	0.0%

*Percentage of investment banking clients in each rating category.

BUY, Neutral, and SELL in the above distribution correspond to our current ratings of Outperform, Neutral, and Underperform.

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BUY: The stock's total return over the next 12-18 months is expected to exceed the return of its relevant broad market benchmark, as indicated below.

NEUTRAL: The stock's total return over the next 12-18 months is expected to be in line with the return of its relevant broad market benchmark, as indicated below. For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category.

SELL: The stock's total return over the next 12-18 months is expected to be below the return of its relevant broad market benchmark, as indicated below.

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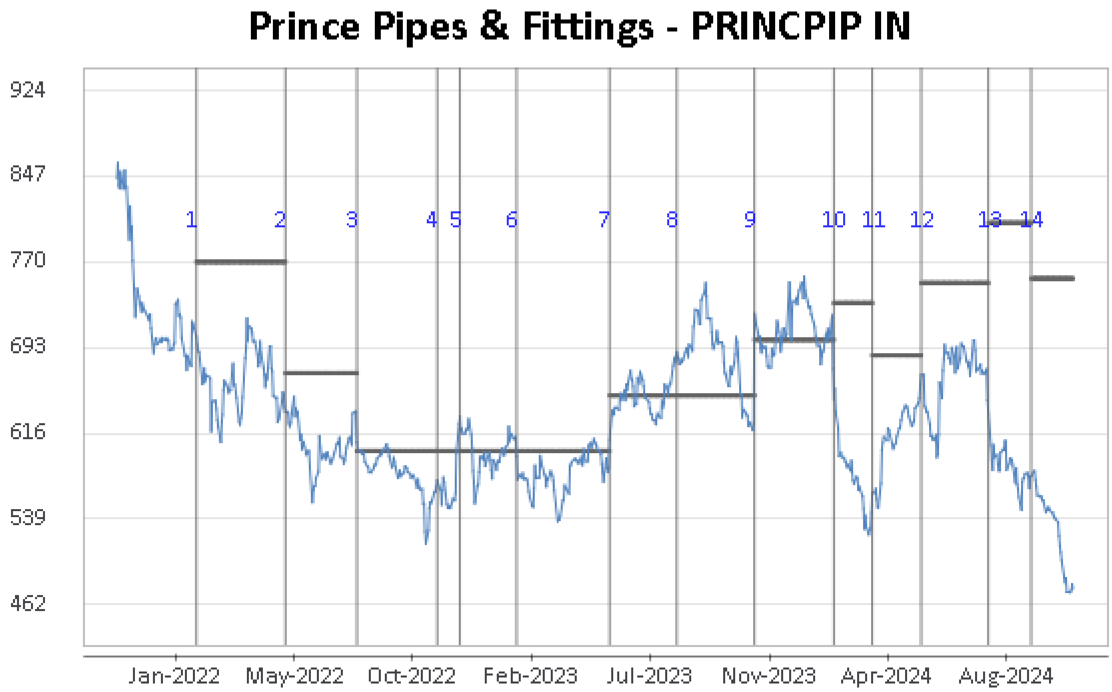

1. 7 Feb 2022 NEUTRAL at 714.25 target 770.00.
2. 22 May 2022 NEUTRAL at 635.00 target 670.00.
3. 10 Aug 2022 NEUTRAL at 607.75 target 600.00.
4. 10 Nov 2022 NEUTRAL at 567.75 target 600.00.
5. 6 Dec 2022 NEUTRAL at 631.20 target 600.00.
6. 9 Feb 2023 NEUTRAL at 612.35 target 600.00.
7. 26 May 2023 NEUTRAL at 585.25 target 650.00.
8. 13 Aug 2023 NEUTRAL at 689.05 target 650.00.
9. 9 Nov 2023 NEUTRAL at 723.50 target 700.00.
10. 7 Feb 2024 NEUTRAL at 673.80 target 733.00.
11. 22 Mar 2024 OUTPERFORM at 544.40 target 686.00.
12. 19 May 2024 OUTPERFORM at 659.90 target 751.00.
13. 2 Aug 2024 OUTPERFORM at 645.70 target 805.00.
14. 20 Sep 2024 OUTPERFORM at 576.80 target 755.00.

Source: Company data Bloomberg, HTI estimates