

Prince Pipes & Fittings (PRNCPIP IN)

Missed 3QFY24 est.; Maintain Neutral on Tepid Earning Growth Profile

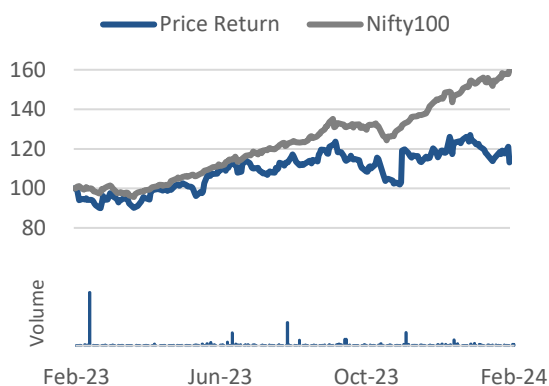
Investment Focus

Maintain NEUTRAL

Rating	NEUTRAL
Current Price	Rs673.80
Target Price	Rs733.00

Market cap	Rs74.50bn / US\$0.90bn
Daily traded value (3mth)	US\$0.22mn
Shares in issue	110.56mn
Free float (%)	35%
1 yr high - low	Rs756.90-Rs536.90

Note: Current Price Rs673.80 is the close price on 6 Feb 2024



Source: Factset

	1mth	3mth	12mth
Absolute	-9.4%	7.8%	9.5%
Absolute USD	-9.3%	8.1%	7.9%
Relative to Nifty100	-12.8%	-14.9%	-50.2%

(Rs mn)	Mar-23A	Mar-24E	Mar-25E	Mar-26E
Revenue	27,109	25,692	28,482	33,452
(+/-)	2%	-5%	11%	17%
Net profit	1,223	1,737	2,167	2,987
(+/-)	-51%	42%	25%	38%
Diluted EPS (Rs)	11.06	15.71	19.60	27.02
GPM	22.8%	29.3%	30.6%	30.8%
ROE	9.3%	12.1%	13.7%	16.7%
P/E	61	43	34	25

Source: Company data, HTI

3QFY24 below est: weak volume and realisation

PRNCPIP revenue de-grew by 12% YoY to Rs6,187mn (est. Rs6,430mn) in 3QFY24. The sales volume de-grew by 2.4% YoY to 42,665MT while realization was lower by 10% YoY. The EBITDA grew by 9% YoY to Rs757mn (est. Rs850mn) as margins expanded by 240bps to 12.2%. The EBITDA per kg increased by 12% YoY to Rs17.7/-. Thus, APAT grew by 6.4% YoY to Rs377mn. The company's volume growth has been underperforming compared to its peers over last few quarters. The key reasons attributed to the same include, 1) Transition to ERP, led to supply chain disturbance and thus market share loss mainly impacting the secondary level, 2) Premium pricing compared to peers in certain markets impacting growth.

Outlook: The company has guided positive demand outlook in near-future due to affordable PVC resin prices, pick-up in real estate activity and corrective measures taken by company to regain market share. The growth in Housing and Infra has been higher than Agri, but as prices are now affordable, company believes agri will also pick up. To regain market share, the company has taken corrective measures including reduction in its prices with industry leader in selective pockets. The company expect its volume to grow at par or better than the industry from 1QFY25. Maintained EBITDA margin guidance of 12-14% over medium-term. Guided for capex spend of Rs1.1 bn for FY24 and Rs1bn in FY25. This is apart from investment in Bihar which will be to the tune of Rs2.2bn adding 50,000tn of pipe, fitting and tank capacity in first phase (commissioning from 4QFY25).

Maintain NEUTRAL; Raise TP by 5% to Rs733 per share

In view of recent quarter performance and outlook, we have revised downwards our PAT estimates for FY24E/FY25E/FY26E by -18%/-20%/-11%. We estimate Revenue PAT CAGR of 14% and 31% over FY24E-26E. We roll over valuations to Mar'26 and continue to maintain PE multiple of 27x. Thus, we arrive at a Price target of Rs733/- (earlier Rs700/-) and maintain Neutral rating on the stock. Increase in exposure to group companies, loss of market share, and significant cost/time overrun of Bihar greenfield project are the key downside risks whereas any sharp uptick in real estate activity would be a key upside risk to our call.

Chintan Modi

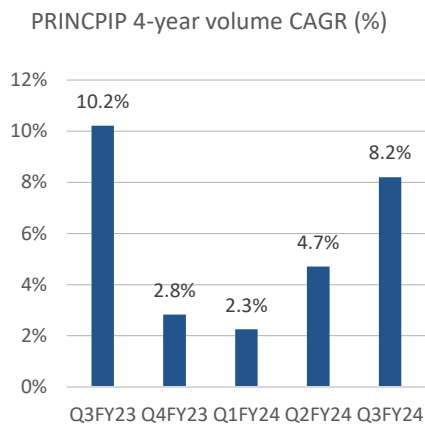
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Quarterly Financial Snapshot (Rs mn)

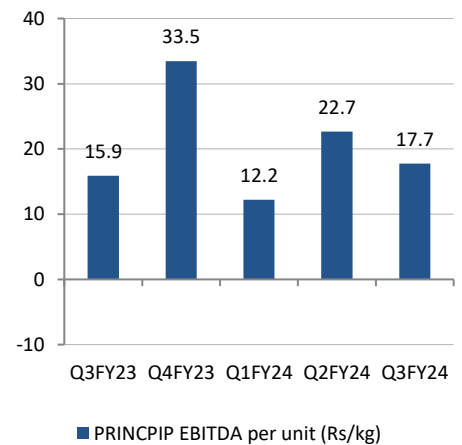
Particulars	Q3FY24	Q3FY23	% chg	Q2FY24	% chg
Operating income	6187	7059	-12.4%	6565	-5.8%
Raw-Material expense	4316	5483	-21.3%	4511	-4.3%
Gross Profit	1871	1576	18.7%	2054	-8.9%
Employee expense	373	311	19.8%	405	-7.9%
Other expense	741	570	30.0%	707	4.8%
EBITDA	757	695	9.0%	942	-19.6%
D&A	229	211	8.8%	225	1.7%
EBIT	528	484	9.0%	716	-26.3%
Interest cost	27	16	67.7%	7	293.3%
Other income	30	12	147.0%	219	-86.2%
PBT	531	480	10.5%	928	-42.8%
Tax	154	126	22.0%	222	-30.6%
Reported PAT	377	354	6.4%	706	-46.7%
Adjusted PAT	377	354	6.4%	572	-34.1%

As % of net revenues	Q3FY24	Q3FY23	chg (bps)	Q2FY24	chg (bps)
Gross margin	30.2	22.3	791	31.3	-105
Employee cost	6.0	4.4	162	6.2	-14
Other cost	12.0	8.1	390	10.8	121
EBITDA margin	12.2	9.8	239	14.3	-211
Tax rate	29.0	26.3	274	23.9	513
APAT margin	6.1	5.0	108	8.7	-262

Source: Company, HTI

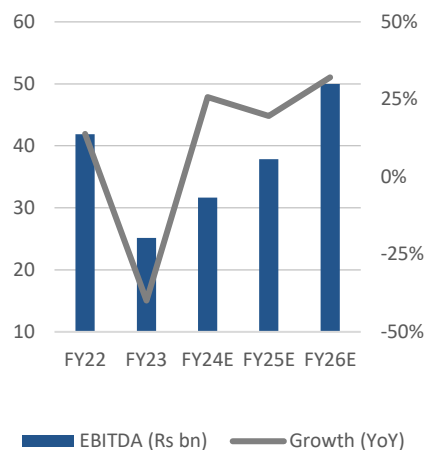
PRNCPIP volume dropped by 2.4% YoY and 8.2% on a 4-year CAGR basis in Q3FY24


Source: Company, HTI

PRNCPIP EBITDA per unit trend


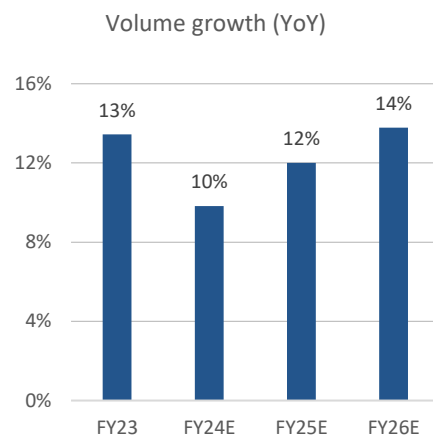
Source: Company, HTI

We maintain Neutral rating as PRINCEPI EBITDA to grow at a tepid 4.5% CAGR over FY22-FY26



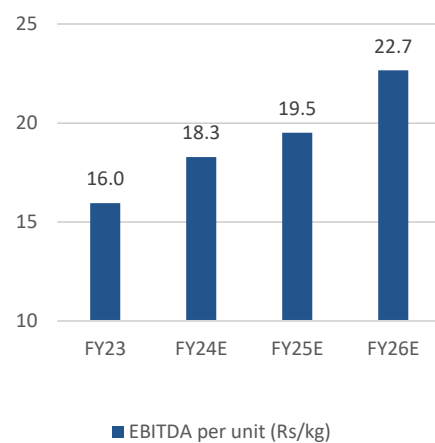
Source: Company, HTI estimates

Volume growth trend



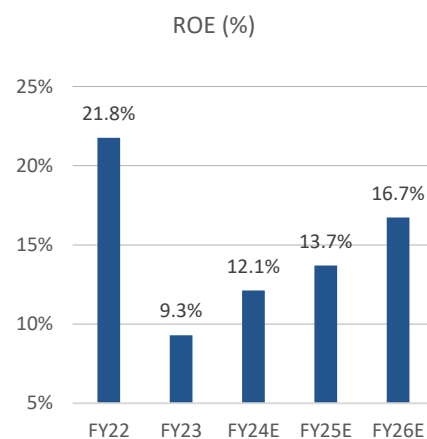
Source: Company, HTI estimates

..and EBITDA per unit also projected to be well above historical average level



Source: Company, HTI estimates

PRINCEPI ROE trend



Source: Company, HTI estimates

Financials

Key Assumptions	Mar-21A	Mar-22A	Mar-23A	Mar-24E	Mar-25E	Mar-26E
Sales Volume growth	4.1%	0.5%	13.4%	9.8%	12.0%	13.8%
Realization growth	21.6%	27.6%	-10.1%	-13.7%	-1.0%	3.2%
EBITDA per unit (Rs/kg)	26.6	30.1	16.0	18.3	19.5	22.7
Pre-tax ROIC	37.3%	32.5%	13.4%	18.9%	23.0%	29.9%

Source: Company; HTI estimates

Key Ratios	Mar-21A	Mar-22A	Mar-23A	Mar-24E	Mar-25E	Mar-26E
Growth						
Revenue growth	26.6%	28.3%	2.0%	-5.2%	10.9%	17.4%
EBITDA growth	55.9%	13.9%	-39.9%	25.8%	19.6%	32.1%
Adjusted PAT growth	93.3%	11.0%	-51.3%	42.0%	24.8%	37.8%
Margins						
Gross margin	33.4%	28.8%	22.8%	29.3%	30.6%	30.8%
EBITDA margin	17.8%	15.8%	9.3%	12.3%	13.3%	14.9%
EBIT margin	14.9%	13.1%	6.2%	8.8%	10.0%	11.7%
PBT margin	14.4%	12.7%	6.1%	9.8%	10.2%	11.9%
Tax rate	25.8%	26.1%	26.4%	25.3%	25.2%	25.2%
Adjusted PAT margin	10.9%	9.5%	4.5%	6.8%	7.6%	8.9%
Operating Cycle						
Inventory days	40	85	57	64	63	63
Debtor days	58	60	56	56	56	56
Creditor days	55	55	43	45	45	45
Return Ratios						
ROE	24.1%	21.8%	9.3%	12.1%	13.7%	16.7%
ROA	22.8%	21.3%	9.1%	11.9%	13.4%	16.5%
Pre-tax ROCE	27.7%	27.4%	11.9%	15.2%	17.3%	21.2%
Pre-tax ROIC	37.3%	32.5%	13.4%	18.9%	23.0%	29.9%
Capex/revenue	6.3%	5.8%	3.8%	5.8%	5.6%	4.8%
Credit Analysis						
Gross Debt / EBITDA	0.2	0.4	0.2	0.2	0.2	0.1
Net Debt / EBITDA	-0.4	0.2	-0.6	-0.7	-0.7	-0.7
Yield Analysis						
CFO Yield	6.4%	-0.3%	6.1%	3.1%	3.2%	3.6%
FCF Yield	3.8%	-2.7%	4.4%	1.2%	1.1%	1.6%
Dividend Yield	0.8%	0.6%	0.0%	0.6%	0.7%	0.7%
Valuation						
P/E (x)	20.3	27.9	49.1	45.6	36.5	26.5
P/B (x)	4.4	5.5	4.4	5.3	4.8	4.2
EV/Sales (x)	2.1	2.7	2.2	3.0	2.7	2.3
EV/EBITDA (x)	12.1	16.9	23.2	24.3	20.2	15.1

Source: Company; HTI estimates

Profit & Loss (Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24E	Mar-25E	Mar-26E
Operating income	20715	26568	27109	25692	28482	33452
Cost of sales	13789	18915	20922	18153	19774	23153
Gross Profit	6927	7653	6187	7539	8708	10299
Employee	1268	1520	1554	1836	2029	2203
Freight costs	259	338	361	343	380	446
Advertisement & Sales Promotion	707	418	414	393	435	511
Others	1015	1190	1339	1803	2078	2138
Total Operating Expenditure	3248	3465	3670	4374	4923	5298
EBITDA	3678	4188	2517	3165	3786	5001
D&A	594	703	830	901	952	1071
EBIT	3084	3485	1687	2264	2834	3929
Interest expense	207	139	110	80	80	80
Interest & other income	176	55	86	142	142	142
Non-recurring expense/(income)	62	32	14	-179	0	0
PBT	2991	3369	1648	2505	2896	3992
Tax	773	875	434	635	729	1005
PAT	2218	2494	1214	1871	2167	2987
Less: Minority Interests	0	0	0	0	0	0
Add: Adjustments	46	18	9	-134	0	0
Adjusted PAT	2264	2512	1223	1737	2167	2987
Adjusted EPS	20.58	22.72	11.06	15.71	19.60	27.02

Source: Company; HTI estimates

Cash Flow (Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24E	Mar-25E	Mar-26E
Reported PAT	2218	2494	1214	1871	2167	2987
Cash profit	2905	3314	2083	2531	3057	3996
Change in working capital	18	-3499	1562	-70	-557	-1115
Cash flow from operations	2923	-185	3645	2460	2500	2881
Capex	-1187	-1680	-1000	-1500	-1600	-1600
Changes in investments	-8	-2	14	0	0	0
Others	114	22	72	321	142	142
Cash flow from investing	-1081	-1660	-915	-1179	-1458	-1458
Changes in equity	-2880	5	0	0	0	0
Changes in debt	-1746	648	-919	-30	60	107
Dividend & dividend tax	-385	-387	0	-498	-553	-553
Interest paid	-207	-139	-110	-80	-80	-80
Others	3104	105	-227	0	0	0
Cash flow from financing	-2112	233	-1256	-608	-573	-526
Cash at beginning of period	2570	2299	687	2161	2835	3304
Total cash generated	-271	-1612	1474	674	469	897
Implied cash at end of period	2299	687	2161	2835	3304	4201
Free cash flow from operations	1736	-1865	2645	960	900	1281

Source: Company; HTI estimates

Balance Sheet (Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24E	Mar-25E	Mar-26E
Common stocks	1100	1106	1106	1106	1106	1106
Shareholders' equity	9335	11547	12534	13907	15522	17956
Total equity	10435	12653	13640	15013	16627	19061
Long-term debt	0	0	0	0	0	0
Deferred-tax liabilities	13	0	31	31	31	31
Other non-current liabilities	250	250	274	274	274	274
Non-current liabilities	263	250	305	305	305	305
Short-term debt	852	1500	581	551	611	717
Current portion of long-term debt	0	0	0	0	0	0
Trade payables	3144	3986	3202	3186	3532	4148
Other current liabilities	1135	1002	814	814	816	820
Current liabilities	5131	6488	4597	4551	4959	5686
Total Liabilities	15829	19390	18542	19869	21891	25052
Gross Block	6946	9039	10105	11105	12105	13105
Less: Accumulated Depreciation	1997	2624	3355	4257	5208	6280
Net Block	4949	6415	6750	6848	6897	6825
Capital Work in Progress	765	226	190	690	1290	1890
Intangible Assets	81	41	101	101	101	101
Capital Advances	254	345	156	156	156	156
Fixed Assets, net	6050	7027	7197	7796	8444	8973
Investments in associates/JV	15	17	3	3	3	3
Other non-current assets	139	80	90	90	90	90
Non-current assets	154	97	93	93	93	93
Inventories	2273	6188	4256	4531	4936	5779
Trade Receivables	3308	4346	4150	3933	4361	5121
Cash & Liquid investments	2299	687	2161	2835	3304	4201
Other current assets	1744	1046	684	681	754	885
Current assets	9625	12267	11252	11980	13354	15986
Total Assets	15829	19390	18542	19869	21891	25052

Source: Company; HTI estimates

APPENDIX

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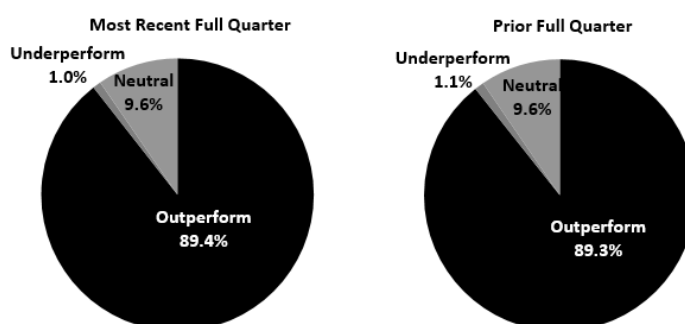
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Prince Pipes & Fittings - PRINCPIP IN



- 1. 14 May 2021 NEUTRAL at 572.95 target 535.0.
- 2. 7 Aug 2021 NEUTRAL at 665.05 target 600.0.
- 3. 3 Nov 2021 NEUTRAL at 754.4 target 700.0.
- 4. 7 Feb 2022 NEUTRAL at 714.25 target 770.0.
- 5. 22 May 2022 NEUTRAL at 635.0 target 670.0.
- 6. 10 Aug 2022 NEUTRAL at 607.75 target 600.0.
- 7. 10 Nov 2022 NEUTRAL at 567.75 target 600.0.
- 8. 6 Dec 2022 NEUTRAL at 631.2 target 600.0.
- 9. 9 Feb 2023 NEUTRAL at 612.35 target 600.0.
- 10. 26 May 2023 NEUTRAL at 585.25 target 650.0.
- 11. 13 Aug 2023 NEUTRAL at 689.05 target 650.0.
- 12. 9 Nov 2023 NEUTRAL at 723.5 target 700.0.

Source: Company data Bloomberg, HTI estimates