

Prince Pipe & Fittings

HOLD

A stellar quarter on key parameters

Summary

Prince Pipes' Q2FY24 result was beat to our estimates on key parameters. After a subdued performance in Q1 due to lower sales, it reported smart rebound with 8% YoY growth in volume at 41,529MT. Though NSR is still lower by 4% YoY (+6% QoQ) at Rs158/Kg, we believe this was majorly owing to earlier high PVC prices. The management sounded optimistic of healthy demand to continue in domestic piping segment. Prince Pipes' timely capacity addition, focus on increasing share of value added products in total sales and foray into bathware segment paves the way for sustainable earnings growth in near term. We have maintained our net sales/PAT estimates for FY24E/FY25E. After sharp run up in stock price, potential upside is capped from current level. We downgrade the stock to HOLD with a TP of Rs798 (unchanged), assigning 35x PER on FY25E.

Key Highlights and Investment Rationale

- **Impressive margins improvement:** We are positively surprised by Prince Pipes' smart revival in operating margin. The company reported 3% YoY increase in net sales at Rs6,565mn, while EBITDA came in at Rs942mn compared to EBITDA loss of Rs113mn in Q2FY23. The company reported healthy 14.3% EBITDA margin. PAT stood at Rs527mn. We believe the company will remain focused on improving the product mix in order to maintain EBITDA margin of healthy double digit in upcoming quarters.
- **Value looks priced in, HOLD with a TP of Rs798:** We like Prince Pipes amongst building material coverage universe given its timely capacity expansion, focus on increasing share of value added products (fittings, CPVC) in total sales, strengthening distribution reach and efforts on working capital cycle. Entry into bathware will further strengthen the company's earnings growth in near term. After run up in stock price, potential upside is limited from current level. HOLD with a TP of Rs798.

TP **Rs798**

CMP **Rs724**

Potential upside/downside 10%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.2	6.9	28.4
Rel to Sensex	9.8	8.4	22.2

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	18	23
Consensus	20	26
% difference	(7.8)	(12.6)

Key Stock Data

Bloomberg / Reuters	PRINCP IN /PRCE.BO
Sector	Plastic Products - Industrial
Shares o/s (mn)	111
Market cap. (Rs mn)	79,991
3-m daily average value (Rs mn)	12.0
52-week high / low	Rs760 / 517
Sensex / Nifty	64,976 / 19,444

Shareholding Pattern (%)

Promoters	60.9
FII	5.0
DII	15.9
Public	18.2

Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	20,715	26,568	27,109	28,470	31,977
Change (yoy, %)	27	28	2	5	12
EBITDA	3,616	4,156	2,503	3,473	4,317
Change (yoy, %)	58	15	(40)	39	24
EBITDA Margin(%)	17.5	15.6	9.2	12.2	13.5
Adj.PAT	2,218	2,494	1,214	1,948	2,521
EPS (Rs)	20	23	11	18	23
Change (yoy, %)	97.2	11.9	(51.3)	60	29
PE(x)	35.7	31.9	65.6	41	32
Dividend Yield (%)	0.5	0.5	0.5	0	1
EV/EBITDA (x)	21.5	19.4	31.5	22.6	17.9
RoE (%)	23.6	21.6	9.2	14	16
RoCE (%)	26.5	26.6	12	17	19

Source: IDBI Capital Research

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Concall Highlights

- Finished Goods volumes increased by 8% YoY in Q2FY24 at 41,529 MT as compared to 38,458 MT in Q2FY23.
- Prince Bathware sales performance has been promising since launch in June 2023 with ramping up distributor based in North and West region in Tier 2/3 cities like Srinagar and Varanasi along with plan to launch in Eastern region by Q4FY24.
- While work is on track to commence construction at the new, integrated manufacturing facility at Bihar, to aid penetration in East market. Along with phase wise implementation underway at Bihar facility which will have 35,000 MT Pipes facility along with a facility for production of Tanks.
- The company stands strong with being long term debt free and having a total installed capacity of 3,28,000 MTPA without the Bihar facility.
- Furthermore having 7 manufacturing facilities, 10 warehouses 7,200 SKU's and 1,500 channel partners.
- New launches by the company have been Prince Onefit with Corzan CPVC technology and created a new vertical – Modern Plumbing & expansion into Prince Bathware.
- For PVC pipes, raw material procurement will be split evenly between domestic and imported sources.
- Capex for this year is lined up to be around 150-160Cr, while capacity utilization for this quarter stood at 50%.
- With the water tank business scaling up, its manufacturing will be expanded to facilities at Haridwar and Chennai in the coming months bringing its manufacturing at 5 out of 7 facilities.
- Management believes CPVC pipes will continue to hold a significant share of the market over the next 5-10 year horizon due to ease of application and cost structure, the company will invest in niche categories like PPR and Composite pipes which are estimated to represent 3-5% of the market share.
- The EBITDA margin guidance for the long term is set at 12-14%. Additionally, Bathware segment sales of Rs8Cr are targeted for the December quarter.

Exhibit 1: Financial snapshot

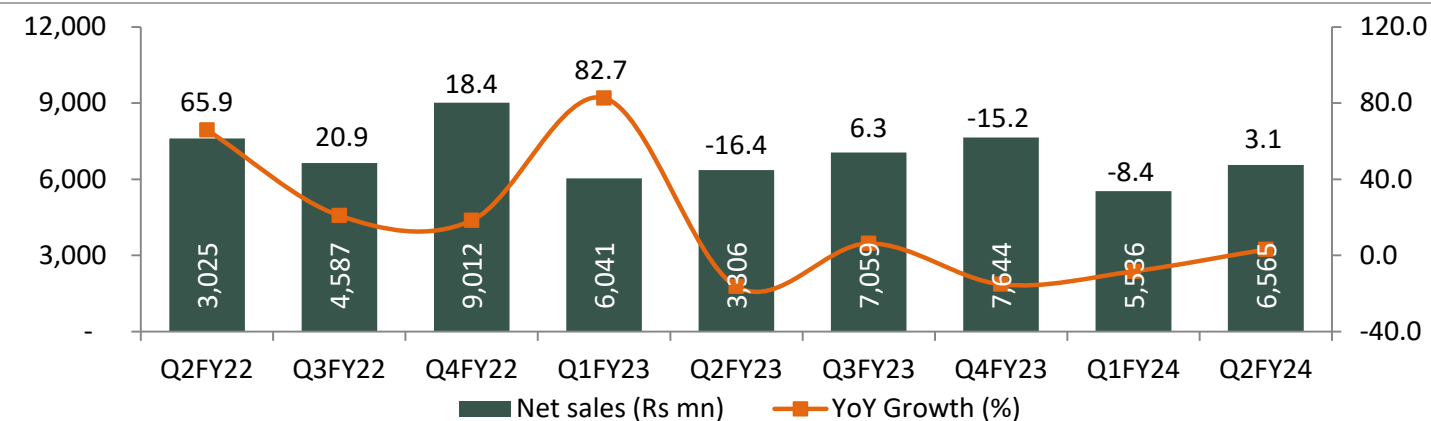
Particulars (Rs mn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Total revenues	6,565	5,536	18.6	6,365	3.1
Total expenditure	5,623	5,082	10.6	6,478	(13.2)
EBIDTA	942	453	107.9	(113)	-
<i>EBIDTA margin (%)</i>	<i>14.3</i>	<i>8.2</i>	<i>616bps</i>	<i>(1.8)</i>	<i>1613bps</i>
Depreciation	225	218	3.3	212	6.5
Interest cost	7	17	(60.4)	32	(78.4)
Other income	40	38	4.1	27	47.9
PBT	749	256	193.1	(330)	-
Tax	222	59	273.9	(89)	-
Adj. net profit	527	196	168.7	(241)	-
Consolidated profit	706	196	260.0	(241)	-
EPS (Rs)	6	2	260.0	(2)	-

Source: Company; IDBI Capital Research

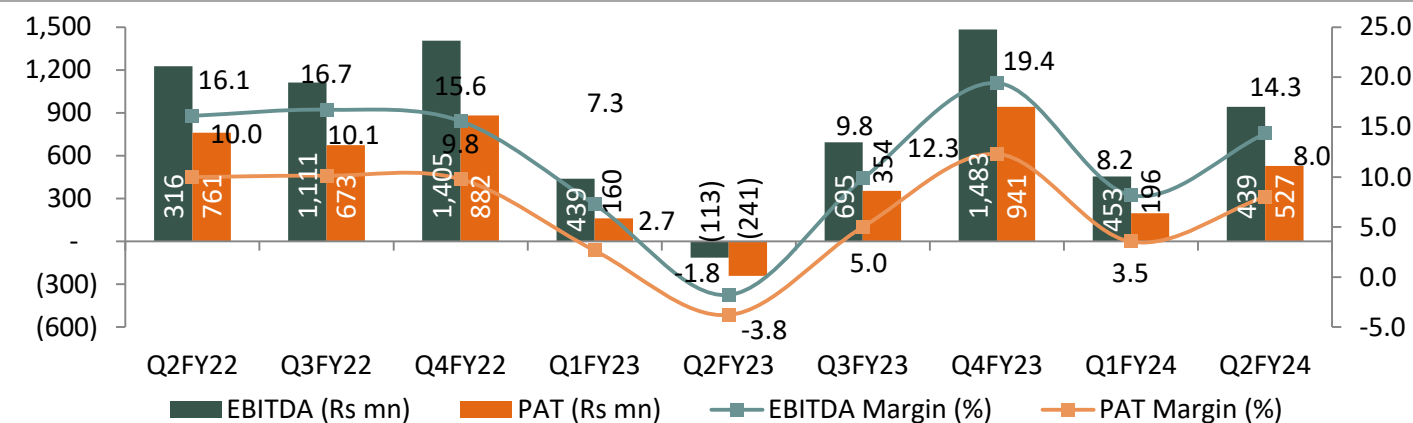
Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q2FY24A	Q2FY24E	Variance (%)
Net Sales	6,565	6,515	0.8
EBITDA	942	828	13.7
<i>EBITDA Margin (%)</i>	<i>14</i>	<i>12.7</i>	<i>163bps</i>
Net Profit	706	467	51.4
EPS (Rs)	6.4	4.2	51.4

Source: Company; IDBI Capital Research

Exhibit 3: Net sales trend


Source: Company; IDBI Capital Research

Exhibit 4: Margins analysis


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	16,357	20,715	26,568	27,109	28,470	31,977
<i>Change (yoy, %)</i>	4.1	27	28	2	5	12
Operating expenses	(14,069)	(17,099)	(22,412)	(24,606)	(24,996)	(27,660)
EBITDA	2,288	3,616	4,156	2,503	3,473	4,317
<i>Change (yoy, %)</i>	24.3	58	15	(40)	39	24
<i>Margin (%)</i>	14.0	17.5	15.6	9.2	12.2	13.5
Depreciation	(520)	(594)	(703)	(830)	(939)	(1,039)
EBIT	1,768	3,022	3,453	1,673	2,534	3,278
Interest paid	(332)	(207)	(139)	(110)	(51)	(59)
Other income	69	176	55	86	120	150
Pre-tax profit	1,506	2,991	3,369	1,649	2,603	3,369
Tax	(381)	(773)	(875)	(434)	(655)	(848)
<i>Effective tax rate (%)</i>	25.3	25.8	26.0	26.3	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	1,125	2,218	2,494	1,214	1,948	2,521
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,125	2,218	2,494	1,214	1,948	2,521
<i>Change (yoy, %)</i>	37.0	97	12	(51)	60	29
EPS	10.2	20.2	22.6	11.0	17.6	22.8
Dividend per sh	1.0	3.5	3.5	3.5	3.5	4.5
<i>Dividend Payout (%)</i>	11.7	20.8	18.6	38	24	24

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	8,377	10,435	12,653	13,640	15,123	17,047
Share capital	1,100	1,100	1,106	1,106	1,106	1,106
Reserves & surplus	7,277	9,335	11,547	12,534	14,017	15,941
Total Debt	2,433	852	1,500	581	639	735
Other liabilities	420	263	250	305	313	323
Curr Liab & prov	2,873	4,279	4,988	4,016	3,999	4,274
Current liabilities	2,852	4,262	4,966	3,996	3,979	4,253
Provisions	21	17	22	20	20	21
Total liabilities	5,725	5,394	6,738	4,902	4,952	5,333
Total equity & liabilities	14,102	15,829	19,390	18,542	20,075	22,380
Net fixed assets	4,961	5,714	6,641	6,985	7,299	7,514
Investments	-	-	100	917	917	917
Other non-curr assets	694	490	482	305	330	357
Current assets	8,447	9,625	12,167	10,335	11,530	13,591
Inventories	3,445	2,273	6,188	4,256	4,469	4,872
Sundry Debtors	1,797	3,308	4,346	4,150	4,648	5,113
Cash and Bank	2,570	2,299	586	1,244	1,701	2,866
Loans and advances	635	1,744	1,046	684	711	740
Total assets	14,102	15,829	19,390	18,542	20,075	22,380

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,506	2,991	3,369	1,649	2,603	3,369
Depreciation	564	594	703	830	939	1,039
Tax paid	(346)	(605)	(955)	(400)	(647)	(837)
Chg in working capital	(1,437)	983	(4,178)	1,136	(736)	(603)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	287	3,963	(1,061)	3,214	2,159	2,967
Capital expenditure	(1,315)	(1,347)	(1,630)	(1,174)	(1,252)	(1,255)
Chg in investments	-	-	(100)	(817)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(1,315)	(1,347)	(1,730)	(1,991)	(1,252)	(1,255)
Equity raised/(repaid)	200	-	5	-	-	-
Debt raised/(repaid)	(82)	(1,581)	648	(919)	58	96
Dividend (incl. tax)	(132)	(462)	(464)	(464)	(464)	(597)
Chg in minorities	-	-	-	-	-	-
Other financing activities	3,389	(845)	890	817	(44)	(45)
Cash flow from financing (c)	3,375	(2,888)	1,079	(566)	(450)	(546)
Net chg in cash (a+b+c)	2,347	(271)	(1,713)	657	456	1,166

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	76.1	95	114	123	137	154
Adj EPS (Rs)	10.2	20.2	22.6	11.0	17.6	22.8
Adj EPS growth (%)	12.1	97	12	-51	60	29
EBITDA margin (%)	14.0	17.5	15.6	9.2	12.2	13.5
Pre-tax margin (%)	9.2	14.4	12.7	6.1	9.1	10.5
Net Debt/Equity (x)	0.0	-0.1	0.1	0.0	-0.1	-0.1
ROCE (%)	19.5	27	27	12	17	19
ROE (%)	18.2	24	22	9	14	16

DuPont Analysis

Asset turnover (x)	1.3	1.4	1.5	1.4	1.5	1.5
Leverage factor (x)	2.0	1.6	1.5	1.4	1.3	1.3
Net margin (%)	6.9	10.7	9.4	4.5	6.8	7.9

Working Capital & Liquidity ratio

Inventory days	77	40	85	57	57	56
Receivable days	40	58	60	56	60	58
Payable days	47	67	65	47	45	43

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	70.4	35.7	31.9	65.6	40.9	31.6
Price/Book value (x)	9.5	7.6	6.3	5.8	5.3	4.7
EV/Net sales (x)	4.8	3.8	3.0	2.9	2.8	2.4
EV/EBITDA (x)	34.6	21.5	19.4	31.5	22.6	17.9
Dividend Yield (%)	0.1	0.5	0.5	0.5	0.5	0.6

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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