

# PRINCE PIPES

## RESULT UPDATE

### KEY DATA

<b>Rating</b>	<b>BUY</b>
<b>Sector relative</b>	<b>Outperformer</b>
<b>Price (INR)</b>	<b>477</b>
<b>12 month price target (INR)</b>	<b>656</b>
<b>52 Week High/Low</b>	<b>776/466</b>
<b>Market cap (INR bn/USD bn)</b>	<b>53/0.6</b>
<b>Free float (%)</b>	<b>36.8</b>
<b>Avg. daily value traded (INR mn)</b>	<b>104.5</b>

### SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	60.94%	60.94%	60.94%
FII	7.27%	6.44%	5.15%
DII	17.53%	18.37%	18.53%
Pledge	0%	0%	0%

### FINANCIALS

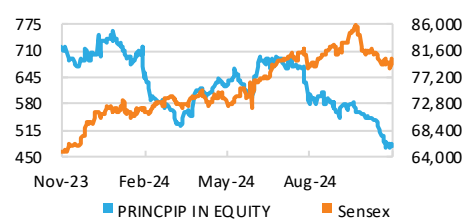
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	25,687	28,245	32,529	37,357
EBITDA	3,074	2,928	3,888	4,669
Adjusted profit	1,646	1,476	2,127	2,709
Diluted EPS (INR)	14.9	13.4	19.2	24.5
EPS growth (%)	35.8	(10.3)	44.1	27.4
RoAE (%)	11.3	9.2	12.1	13.7
P/E (x)	31.4	35.0	24.3	19.1
EV/EBITDA (x)	23.0	23.5	17.3	13.9
Dividend yield (%)	0	0	0	0

### CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E
Revenue	28,245	32,529	-4%	-5%
EBITDA	2,928	3,888	-21%	-12%
Adjusted profit	1,476	2,127	-31%	-17%
Diluted EPS (INR)	13.4	19.2	-31%	-17%

### PRICE PERFORMANCE



## Volume gain at the cost of margins

PPFL posted mixed results. While volume clocked 4% YoY growth (our estimate: 2%), margins treaded lower by 700bp to 7.3% (estimate: 9.8%). Plumbing (CPVC) and SWR led volume growth as PVC segment faced destocking due to falling prices restricting growth. Owing to PVC price volatility and a soft H1FY25, PPFL cut its volume growth guidance to 8–10% (from 15%) for FY25E along with 12% margins in H2FY25.

Factoring in a weak H1 showing due to falling PVC prices and inventory loss along with high competitive intensity, which is restricting growth, we are cutting FY25E/26E/27E EPS by 31%/17%/12% and target valuation from 33x to 30x. Given the sharp correction in the stock, we retain 'BUY' with a TP of INR656 (earlier INR804) on Q2FY27 EPS.

### Volumes hurt by destocking

While volumes grew 4% YoY slightly better than our estimate of 2%, realisations fell 9% (our estimate: 7% fall). The dip in realisation was fuelled by the fall in PVC prices by 16% YoY and channel incentives given to drive volume growth. Furthermore, capacity addition of 50,000 tonnes in East by Jan-25 and de-bottlenecking at rest of the locations over the next two quarters shall improve availability and drive volume growth. Although October has been slow, channel inventory is likely to pick up owing to an uptick in PVC prices and impending ADD on PVC. Given the weak performance, PPFL has lowered its volume growth guidance for pipes to 8–10% (from 15%).

### Margin slips; inventory days get stretched

EBITDA margin came in at 7.3% (down 700bp YoY/230bp QoQ) below our/consensus estimate of 9.9%/10.3%. The quarter was marred by i) inventory loss at INR150; ii) trade incentives (~2%); iii) bathware loss of INR30mn/40mn; and iv) operating deleverage. Consequently, EBITDA/kg for Q2 was ~INR10.5. PPFL is now guiding for 12% EBITDA margins in H2FY25. The margins shall expand with: i) better product mix; and ii) operating leverage (did not play out in Q2FY25). During the quarter, inventory days are up from 62 to 83 and PPFL wants to improve it by 10–12days.

### Bet on Bathware (Aquel brand); capacity expansion on track

The company recorded a top line of INR70mn with a loss of INR40mn in the Bathware division. PPFL has to complete its second phase of payout amounting to INR430mn and anticipates to spend INR50mn/70mn on maintenance capex. It aims to clock INR250mn in FY25. Total capex planned by the company amounts to INR3bn/3.5bn (Bihar: INR1.7bn, debottlenecking: INR300mn/350mn and maintenance capex: INR800–900mn).

### Financials

Year to March	Q2FY25	Q2FY24	% Change	Q1FY25	% Change
Net Revenue	6,221	6,565	(5.2)	6,045	2.9
EBITDA	457	942	(51.5)	583	(21.6)
Adjusted Profit	147	527	(72.1)	247	(40.4)
Diluted EPS (INR)	1.3	4.8	(72.1)	2.2	(40.4)

## Financial Statements

### Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	25,687	28,245	32,529	37,357
Gross profit	7,494	7,626	9,173	10,647
Employee costs	1,477	1,698	1,902	2,093
Other expenses	2,943	3,000	3,383	3,885
EBITDA	3,074	2,928	3,888	4,669
Depreciation	912	1,057	1,188	1,230
Less: Interest expense	65	63	41	23
Add: Other income	161	161	177	195
Profit before tax	2,258	1,968	2,836	3,612
Prov for tax	612	492	709	903
Less: Other adj	0	0	0	0
Reported profit	1,646	1,476	2,127	2,709
Less: Excp.item (net)	0	0	0	0
Adjusted profit	1,646	1,476	2,127	2,709
Diluted shares o/s	111	111	111	111
Adjusted diluted EPS	14.9	13.4	19.2	24.5
DPS (INR)	0	0	0	0
Tax rate (%)	27.1	25.0	25.0	25.0

### Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Volume Growth (%)	9.6	10.0	14.0	14.0
Realisation Growth	(13.5)	0	1.0	0.7
Capex (INR mn)	1,872.6	2,750.0	600.0	600.0
EBITDA margin (%)	12.0	10.4	12.0	12.5
Net profit margin (%)	6.4	5.2	6.5	7.3
Revenue growth (% YoY)	(5.2)	10.0	15.2	14.8
EBITDA growth (% YoY)	22.8	(4.7)	32.8	20.1
Adj. profit growth (%)	35.8	(10.3)	44.1	27.4

### Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.5	6.5	6.5	6.5
Repo rate (%)	5.3	5.3	5.3	5.3
USD/INR (average)	75.0	75.0	75.0	75.0
Gross margins	29.2	27.0	28.2	28.5
EBITDA/MT	17,431.7	20,382.2	21,704.8	0
Depre % of gross block	6.9	6.8	6.9	6.9
Interest % of debt	7.5	6.5	6.5	6.5

### Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	31.4	35.0	24.3	19.1
Price/BV (x)	3.3	3.1	2.8	2.5
EV/EBITDA (x)	23.0	23.5	17.3	13.9
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

### Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	1,106	1,106	1,106	1,106
Reserves	14,338	15,538	17,389	19,821
Shareholders funds	15,444	16,644	18,494	20,927
Minority interest	0	0	0	0
Borrowings	1,144	797	462	235
Trade payables	2,491	3,672	4,159	4,757
Other liabs & prov	1,876	1,876	1,876	1,876
Total liabilities	21,232	23,265	25,268	28,071
Net block	7,888	9,581	8,993	8,363
Intangible assets	87	87	87	87
Capital WIP	354	354	354	354
Total fixed assets	8,329	10,022	9,434	8,804
Non current inv	382	382	382	382
Cash/cash equivalent	777	2,183	3,469	5,373
Sundry debtors	5,849	4,643	5,347	6,141
Loans & advances	0	0	0	0
Other assets	5,460	5,601	6,200	6,936
Total assets	21,232	23,265	25,268	28,071

### Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	1,646	1,476	2,127	2,709
Add: Depreciation	912	1,057	1,188	1,230
Interest (net of tax)	44	42	27	15
Others	(4,423)	4,513	(1,620)	(1,856)
Less: Changes in WC	(2,151)	2,246	(817)	(932)
Operating cash flow	329	4,842	2,539	3,029
Less: Capex	(1,845)	(2,750)	(600)	(600)
Free cash flow	(1,517)	2,092	1,939	2,429

### Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	11.3	9.2	12.1	13.7
RoCE (%)	15.1	11.9	15.8	18.1
Inventory days	87	79	75	75
Receivable days	71	68	56	56
Payable days	57	55	61	61
Working cap (% sales)	27.8	17.3	17.5	17.8
Gross debt/equity (x)	0.1	0	0	0
Net debt/equity (x)	0	(0.1)	(0.2)	(0.2)
Interest coverage (x)	33.3	29.6	66.0	151.9

### Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	35.8	(10.3)	44.1	27.4
RoE (%)	11.3	9.2	12.1	13.7
EBITDA growth (%)	22.8	(4.7)	32.8	20.1
Payout ratio (%)	0	0	0	0

## Q2FY25 conference call highlights

### Opening remarks

- A 16% fall in PVC prices during the quarter.
- Stocking cycles have been resuming with prices stabilising.
- The second phase of purchase agreement for Acquel's manufacturing facility is under process awaiting regulatory approvals.

### Financial highlights

- Volume growth mainly from the plumbing and SWR segment
- Overall WCD stood at 93 days during H1FY25 as inventory days are up from 62 days to 83 days; inventory days should improve by 10–12 days.
- Inventory losses would be between INR120mn and INR150mn.
- Reasons for lower margins in Q2FY25:
  - 2–2.5% inventory loss.
  - 2% trade incentives to channel partner (to post volume growth).
  - 0.5% (INR30mn) loss for the bathware division.
- The company spent 2.5% of its revenue on promotional spends for H1FY25 and Q2FY25 with it likely to be in the same range for the whole year.
- RoEs have been lower due to capacity additions and challenging quarters as a result of PVC volatility and ERP issues.
- Water tanks revenue for Q2FY24: INR120mn.
- The company aims to close bathware revenue with more than INR250mn for FY25. Manpower cost is likely to go up due to expansion in South and East India.

### Volume growth

- Eastern India is a faster growing market due to late urbanisation and a lower base. Being supplied through Haridwar and arrangements in Hajipur, but the new plant in Begusarai will help in reducing lead time and freight costs.
- By Q4FY25 (March) capacity at Begusarai will be more than 50,000 tonnes; capacity utilisation will be bleak in the initial months.

### Guidance

- FY25 volume growth: 8–10%
- EBITDA margins of 12% are achievable.

### Bathware/Aquel

- Aquel reported INR70mn of revenue in Q2FY25.
- Second phase cash outflow will be INR430mn with another INR70mn maintenance capex.

### PVC

- The company has passed on the first price hike while the second one will be passed on next week.

## Capital expenditure

- Monsoons in Begusarai have delayed the plant from Jan-25 to Mar-25.
- Jaipur facility has 80 acres with Telangana having 50 acres for future expansion plans.
- Total capex including Bihar should be in the range of INR3.3–3.5bn.
- Pipes.

Facility/application	Amount
Bihar	INR1.7bn
De-bottlenecking	INR300-350mn
Maintenance capex	INR800-900mn

- Aquef

Application	Amount
Phase 2	INR430mn
Maintenance capex	INR50-70mn

## CPVC

- CPVC posted volume growth compared with PVC with growth being led by plumbing.

## Inventory

- Inventory destocking was mainly due to significant downtrend in PVC prices. Prices have improved in November due to provisioning of the ant dumping duty.
- Channel inventory in Q1 was higher than Q2 as demand was not as weak.
- CPVC prices do not change as often; not expecting wild changes in CPVC demand.

## Miscellaneous

- October was muted as PVC prices continued to slide coupled with the festive period.
- Piping industry is 65% organised; the top four players are gaining at a much quicker pace than the others.
- Everyone has been adding capacities to keep up with the demand; one of the players has been more aggressive.
- Prince passed on price cuts responsibly; no predatory pricing was done.
- No immediate plans for OPVC as of now.
- Levers to margin improvement:
  - Pricing power
  - Better product mix (CPVC continues to do well)
  - Operating leverage (Did not play out in Q2FY25)
- Competitive intensity in tanks is high due to the market being highly unorganised (65%)

# PRINCE PIPES

Exhibit 1: Financial snapshot (in INR mn)

Year to March	Q2FY25	Q2FY24	% change	Q1FY25	% change	FY25E	FY25E
Revenues	6,221	6,565	(5.2)	6,045	2.9	28,245	32,529
Raw material	4,542	4,511	0.7	4,370	3.9	20,619	23,356
Staff costs	446	405	10.2	382	16.9	1,698	1,902
Others	776	707	9.8	710	9.2	3,000	3,383
Total expenditure	5,764	5,623	2.5	5,462	5.5	25,317	28,641
EBITDA	457	942	(51.5)	583	(21.6)	2,928	3,888
Depreciation	276	225	22.3	257	7.0	1,057	1,188
EBIT	181	716	(74.7)	325	(44.3)	1,871	2,700
Less: Interest Expense	16	7	137.4	14	13.1	63	41
Add: Other income	39	40	(0.4)	26	53.5	161	177
Profit Before Tax	204	749	(72.7)	337	(39.3)	1,968	2,836
Less: Provision for Tax	57	222	(74.2)	90	(36.3)	492	709
Add: Exceptional items	0	0		0			
Reported Profit	147	527	(72.1)	247		1,476	2,127
Adjusted net profit	147	527	(72.1)	247	(40.4)	1,476	2,127
No. of Diluted shares outstanding (mn)	110	110		110		110	111
Adjusted Diluted EPS	1.3	4.8	(72.1)	2.2	(40.4)	13.4	19.2
P/E (x)						35.0	24.3
EV/EBITDA (x)						17.0	12.4
ROE(%)						9.2	12.1
As % of net revenues							
Raw material	73.0	68.7		72.3		73.0	71.8
Staff expenses	7.2	6.2		6.3		6.0	5.8
Other expenses	12.5	10.8		11.8		10.6	10.4
EBITDA	7.3	14.3		9.6		10.4	12.0
Net profit	2.4	8.0		4.1		5.2	6.5

Source: Company, Nuvama Research

## Company Description

PPFL is one of the leading polymer pipes and fittings manufacturers in India in terms of the number of distributors. The company markets its products under two brand names—Prince Piping Systems and Trubore. It has more than 30 years of experience in manufacturing polymer pipes and 20 plus years of experience in manufacturing fittings. Currently, PPFL manufactures polymer pipes and fittings using four different polymers—UPVC, CPVC, PPR and PP. As at March 31, 2023, the company had a product range of more than 7,500 SKUs used for varied applications in plumbing, irrigation and sewage disposal. It currently sells products to distributors, who then resell them to wholesalers, retailers and consumers.

## Investment Theme

PPFL—a leading player in fast-growing plastic pipes industry (12-14% CAGR)—has reaped benefit of demand shift to organised players. Underpinned by a comprehensive product range, presence across segments (agri, infra, plumbing) and pan-India brand & distribution, it has clocked 27%, 15% and 19% revenue, EBITDA and PAT CAGR, respectively, over FY18-23— one of the highest in industry. PPFL is well placed to outpace industry riding capacity and geographical expansion.

## Key Risks

- Sustained slowdown in residential and non-residential construction activity in India
- Slowdown in agriculture sector
- Raw material prices volatility can impact profitability

## Additional Data

### Management

Chairman and MD	Jayant S. Chheda
ED & Promoter	Parag J. Chheda
ED & Promoter	Vipul J. Chheda
CFO	Shyam Sharda
Auditor	N.A Shah Associates LLP

### Holdings – Top 10\*

	% Holding		% Holding
Mirae asset	10.42	TT Internationa	0.50
DSP	4.47	FundRock manage	0.43
Norges bank	2.48	ICICI Prudentia	0.27
Aditya Birla su	1.46	PGIM India	0.26
Dimensional fun	0.50	Blackrock	0.17

\*Latest public data

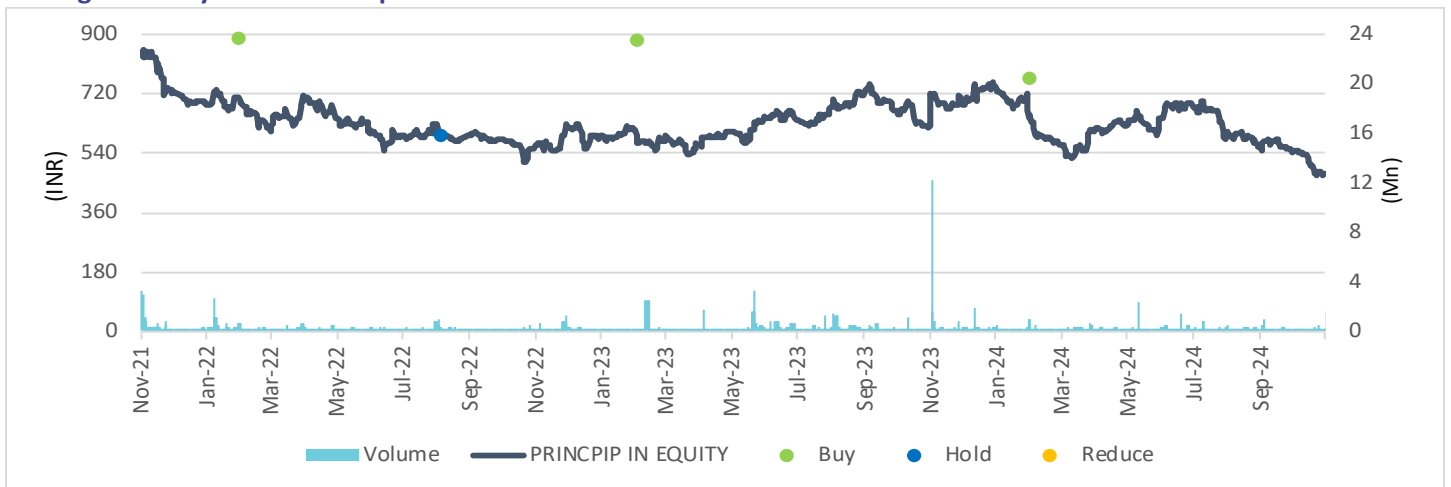
### Recent Company Research

Date	Title	Price	Reco
02-Aug-24	Volumes growth returns; margins hit; <i>Result Update</i>	648	Buy
25-Jun-24	Prince: Riding high on the pipe story; <i>Company Update</i>	671	Buy
17-May-24	Finally, recouping market share ; <i>Result Update</i>	669	Buy

### Recent Sector Research

Date	Name of Co./Sector	Title
04-Nov-24	Home Decor	Home Decor – Preliminary ADD on PVC resi; <i>Sector Update</i>
30-Oct-24	JTL	Inventory loss hurts margin; <i>Result Update</i>
29-Oct-24	Greenply Inds.	Revenue in line; margins a miss; <i>Result Update</i>

### Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

### Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	223
Hold	<15% and >-5%	63
Reduce	<-5%	27

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# PRINCE PIPES

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