

PRINCE PIPES

RESULT UPDATE

KEY DATA

| | |
|---|---------------------|
| Rating | BUY |
| Sector relative | Outperformer |
| Price (INR) | 670 |
| 12 month price target (INR) | 772 |
| 52 Week High/Low | 776/532 |
| Market cap (INR bn/USD bn) | 80/1.0 |
| Free float (%) | 36.8 |
| Avg. daily value traded (INR mn) | 325.3 |

SHAREHOLDING PATTERN

| | Mar-23 | Dec-22 | Sep-22 |
|----------|--------|--------|--------|
| Promoter | 60.94% | 62.94% | 62.94% |
| FII | 6.25% | 4.41% | 3.98% |
| DII | 15.74% | 15.46% | 14.58% |
| Pledge | 0% | 0% | 0% |

FINANCIALS

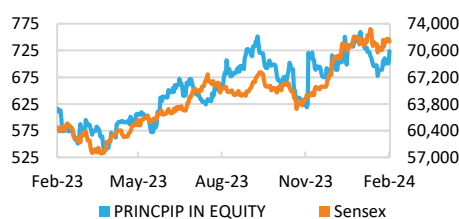
(INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|--------------------|--------|--------|--------|--------|
| Revenue | 27,109 | 25,687 | 30,970 | 35,774 |
| EBITDA | 2,503 | 3,176 | 4,202 | 5,044 |
| Adjusted profit | 1,213 | 1,744 | 2,473 | 2,971 |
| Diluted EPS (INR) | 11.0 | 15.8 | 22.4 | 26.9 |
| EPS growth (%) | (51.3) | 43.8 | 41.9 | 20.1 |
| RoAE (%) | 9.2 | 12.1 | 15.3 | 15.9 |
| P/E (x) | 61.1 | 42.5 | 29.9 | 24.9 |
| EV/EBITDA (x) | 27.8 | 21.6 | 16.5 | 13.2 |
| Dividend yield (%) | 0 | 0 | 0 | 0 |

CHANGE IN ESTIMATES

| | Revised estimates | | % Revision | |
|-------------------|-------------------|--------|------------|-------|
| Year to March | FY24E | FY25E | FY24E | FY25E |
| Revenue | 25,687 | 30,970 | -11% | -12% |
| EBITDA | 3,176 | 4,202 | -18% | -19% |
| Adjusted profit | 1,744 | 2,473 | -25% | -25% |
| Diluted EPS (INR) | 15.8 | 22.4 | -25% | -25% |

PRICE PERFORMANCE



Market share loss continues

PPFL posted a weak Q3FY24 marked by a volume dip of 2% YoY (estimate: -3% YoY), realisation reduction of 10% YoY (estimate: 5%) and margin drop to 12.2% (estimate: 14%). The quarter was marred by market share loss, inventory and bathware loss (INR100mn and INR30mn). On top of this, debtors stretched (to 73, up from 63) and inventory days too (to 75, from 62). While PPFL intends to gain market share, its guidance was restricted to growth in line with industry.

Given the weak 9MFY24 coupled with a subdued guidance, we are cutting FY24E, FY25E and FY26E EPS by 25% each and the PE to 30x (from 33x)—in line with PPFL's three-year average. Retain 'BUY' with a TP of INR772 (earlier INR1,085) as we roll forward to Q3FY26E EPS.

Volume falls against strong growth by peers

Volume contracted 2% YoY—in line with our estimate of 3% but came in markedly lower than peers: Supreme Industries 17%, Astral 15% and Apollo Pipes 5%. This coupled with a further dip in realisation by 10% YoY dragged top line by 12.4% YoY. The slip in realisation is primarily on account of polymer price correction and along with additional price cuts taken by the company to be affordable. That said, capacity addition in East shall open up a new geography for growth for the company. Moreover, demand momentum from real estate, agriculture and infrastructure implies growth impetus for the company (and the industry).

Margins suffer; inventory loss and employee cost drag

EBITDA margin at 12.2% (up 240bp/down 210bp QoQ) undershot our/consensus estimate of 14%/13%. The quarter was marred by inventory losses to the tune of INR100mn, bathware losses of INR30mn and higher employee costs (up 20% YoY). Lower volumes along with higher costs dragged EBITDA by 20% QoQ to INR757mn. Management trimmed its annualised EBITDA margin guidance to 12–14% (from 13–14%). They have decided to revisit their strategy of over premiumisation, which has hurt market share gains.

Banking on Bathware; capacity expansion on track

PPFL recorded a top line of INR60mn in Bathware along with expenses of INR30mn. It continues to focus on branding and distribution along with expansion to four zones from current two, expecting to break even in four–six quarters. The company has enhanced the capex plan for Bihar from INR1.5bn to INR2.2bn, by including a fittings line at the Bihar plant (slated for commissioning in H2FY25). This new capacity in East adds strong growth visibility beyond FY25.

Financials

| Year to March | Q3FY24 | Q3FY23 | % Change | Q2FY24 | % Change |
|-------------------|--------|--------|----------|--------|----------|
| Net Revenue | 6,186 | 7,059 | (12.4) | 6,565 | (5.8) |
| EBITDA | 757 | 695 | 8.9 | 942 | (19.7) |
| Adjusted Profit | 376 | 354 | 6.3 | 527 | (28.6) |
| Diluted EPS (INR) | 3.4 | 3.2 | 6.3 | 4.8 | (28.6) |

Financial Statements

Income Statement (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|------------------------|--------|--------|--------|--------|
| Total operating income | 27,109 | 25,687 | 30,970 | 35,774 |
| Gross profit | 6,187 | 7,346 | 9,074 | 10,446 |
| Employee costs | 1,161 | 1,451 | 1,625 | 1,820 |
| Other expenses | 2,523 | 2,720 | 3,247 | 3,583 |
| EBITDA | 2,503 | 3,176 | 4,202 | 5,044 |
| Depreciation | 830 | 909 | 987 | 1,214 |
| Less: Interest expense | 110 | 78 | 70 | 40 |
| Add: Other income | 86 | 137 | 153 | 172 |
| Profit before tax | 1,648 | 2,325 | 3,298 | 3,961 |
| Prov for tax | 436 | 581 | 824 | 990 |
| Less: Other adj | 0 | 0 | 0 | 0 |
| Reported profit | 1,213 | 1,744 | 2,473 | 2,971 |
| Less: Excp.item (net) | 0 | 0 | 0 | 0 |
| Adjusted profit | 1,213 | 1,744 | 2,473 | 2,971 |
| Diluted shares o/s | 111 | 111 | 111 | 111 |
| Adjusted diluted EPS | 11.0 | 15.8 | 22.4 | 26.9 |
| DPS (INR) | 0 | 0 | 0 | 0 |
| Tax rate (%) | 26.4 | 25.0 | 25.0 | 25.0 |

Important Ratios (%)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|------------------------|---------|---------|---------|-------|
| Volume Growth (%) | 8.8 | 9.1 | 16.0 | 15.0 |
| Realisation Growth | (6.2) | (13.1) | 3.9 | 0.4 |
| Capex (INR mn) | 1,006.5 | 1,650.0 | 2,750.0 | 600.0 |
| EBITDA margin (%) | 9.2 | 12.4 | 13.6 | 14.1 |
| Net profit margin (%) | 4.5 | 6.8 | 8.0 | 8.3 |
| Revenue growth (% YoY) | 2.0 | (5.2) | 20.6 | 15.5 |
| EBITDA growth (% YoY) | (39.8) | 26.9 | 32.3 | 20.0 |
| Adj. profit growth (%) | (51.3) | 43.8 | 41.9 | 20.1 |

Assumptions (%)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|------------------------|----------|----------|----------|----------|
| GDP (YoY %) | 7.0 | 6.5 | 6.5 | 6.5 |
| Repo rate (%) | 4.3 | 5.3 | 5.3 | 5.3 |
| USD/INR (average) | 76.0 | 75.0 | 75.0 | 75.0 |
| Gross margins | 22.8 | 28.6 | 29.3 | 29.2 |
| EBITDA/MT | 15,871.1 | 18,463.3 | 21,064.1 | 21,982.8 |
| Depre % of gross block | 7.2 | 7.0 | 6.5 | 7.2 |
| Interest % of debt | 10.6 | 10.0 | 9.0 | 8.0 |

Valuation Metrics

| Year to March | FY23A | FY24E | FY25E | FY26E |
|--------------------|-------|-------|-------|-------|
| Diluted P/E (x) | 61.1 | 42.5 | 29.9 | 24.9 |
| Price/BV (x) | 5.4 | 4.9 | 4.3 | 3.7 |
| EV/EBITDA (x) | 27.8 | 21.6 | 16.5 | 13.2 |
| Dividend yield (%) | 0 | 0 | 0 | 0 |

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|----------------------|--------|--------|--------|--------|
| Share capital | 1,106 | 1,106 | 1,106 | 1,106 |
| Reserves | 12,534 | 14,001 | 16,198 | 18,893 |
| Shareholders funds | 13,640 | 15,107 | 17,304 | 19,998 |
| Minority interest | 0 | 0 | 0 | 0 |
| Borrowings | 581 | 981 | 581 | 406 |
| Trade payables | 3,202 | 3,266 | 3,899 | 4,510 |
| Other liabs & prov | 951 | 951 | 951 | 951 |
| Total liabilities | 18,542 | 20,473 | 22,903 | 26,034 |
| Net block | 6,795 | 7,536 | 9,298 | 8,684 |
| Intangible assets | 10 | 10 | 10 | 10 |
| Capital WIP | 236 | 236 | 236 | 236 |
| Total fixed assets | 7,041 | 7,782 | 9,544 | 8,930 |
| Non current inv | 920 | 920 | 920 | 920 |
| Cash/cash equivalent | 1,244 | 2,499 | 1,619 | 3,822 |
| Sundry debtors | 4,150 | 4,574 | 5,091 | 5,881 |
| Loans & advances | 0 | 0 | 0 | 0 |
| Other assets | 4,940 | 4,453 | 5,483 | 6,235 |
| Total assets | 18,542 | 20,473 | 22,903 | 26,034 |

Free Cash Flow (INR mn)

| Year to March | FY23A | FY24E | FY25E | FY26E |
|-----------------------|-------|---------|---------|---------|
| Reported profit | 1,213 | 1,744 | 2,473 | 2,971 |
| Add: Depreciation | 830 | 909 | 987 | 1,214 |
| Interest (net of tax) | 74 | 52 | 47 | 26 |
| Others | 2,958 | 282 | (1,805) | (1,848) |
| Less: Changes in WC | 1,473 | 128 | (914) | (931) |
| Operating cash flow | 3,602 | 2,859 | 2,617 | 3,294 |
| Less: Capex | (998) | (1,650) | (2,750) | (600) |
| Free cash flow | 2,604 | 1,209 | (133) | 2,694 |

Key Ratios

| Year to March | FY23A | FY24E | FY25E | FY26E |
|-----------------------|-------|-------|-------|-------|
| RoE (%) | 9.2 | 12.1 | 15.3 | 15.9 |
| RoCE (%) | 12.4 | 15.9 | 19.8 | 20.9 |
| Inventory days | 91 | 80 | 71 | 75 |
| Receivable days | 57 | 62 | 57 | 56 |
| Payable days | 63 | 64 | 60 | 61 |
| Working cap (% sales) | 18.7 | 19.3 | 18.9 | 19.0 |
| Gross debt/equity (x) | 0 | 0.1 | 0 | 0 |
| Net debt/equity (x) | 0 | (0.1) | (0.1) | (0.2) |
| Interest coverage (x) | 15.2 | 29.0 | 45.7 | 96.9 |

Valuation Drivers

| Year to March | FY23A | FY24E | FY25E | FY26E |
|-------------------|--------|-------|-------|-------|
| EPS growth (%) | (51.3) | 43.8 | 41.9 | 20.1 |
| RoE (%) | 9.2 | 12.1 | 15.3 | 15.9 |
| EBITDA growth (%) | (39.8) | 26.9 | 32.3 | 20.0 |
| Payout ratio (%) | 0 | 0 | 0 | 0 |

Q3FY24 conference call highlights

Opening remarks

- Volumes at 42k MT
- Adding new products
- Strengthening brand equity
- The key focus is on the project segment
- Focus on Project segment
- New integrated facility at Bihar underway
- First full quarter of bathware:- received good response from dealers

Financial highlights

- Had board meeting at Telangana plant
- Taking this call from HYD.
- Debtors days – 72 versus 63 days QoQ
- Inventory – 78 days
- Payables: 81 days
- NWC days – 69 days
- Ad spends stood at INR 120 million for the quarter and INR 390 million for 9MFY24.
- Short term debt – INR 600 million, Long term debt – INR 400 million
- EBITDA guidance of 12-14%, debtor days will continue to reduce (60s), without impacting market share.

Demand outlook

- The government continues to be bullish on water infrastructure.
- Demand for pipes seems to be sustainable.
- Real estate demand is strong and here to stay.

Volume growth

- In the first two quarters, the company faced supply chain issues and thus lost market share and is now working on gaining market share once again.
- Realisations have corrected due to correction in prices to become more competitive in the market.
- From Q1FY25, the company should start performing in line with industry growth.

Market share loss

- Market share loss has been more at a retail level than a distributor level due to supply chain disruption. Distributors have been loyal to the company and relationships have been maintained.
- Certain geographies have been affected and the company has come up with a plan to restore the market share.
- The company hasn't been giving deep discounts compared to peers.
- Will gain share without impacting guided market share.

Bathware

- Got encouraging response from dealers and distributors.
- Plan to establish 100 touchpoints
- Total expenditure (Ad spend + manpower expenses) - INR 30 million
- Revenue for the division stood at INR 50 million

PVC

- Q3 isn't the quarter to usually see the best of demand due to cyclical in the agricultural side, March sees good demand.
- Building material has done better than Agri and will continue to be so in the foreseeable future.

Capacities

- Bihar will have a capacity of 50k tons which should include capacities for pipes, fitting and tanks with a total outlay of INR 2.2 Billion.
- With respect to the Bihar facility, the company has a land bank of 35 acres which can further be used to expand its capacities over a horizon of 5 years.
- Realigned capacity in Chennai from 42 k tonnes to 47 k tonnes.
- Overall capacity stands at 338,000 k tonnes.

Capital expenditure

- Earlier was 150 crores now 220 crores for Bihar. Market in the east has been growing on our side and therefore this capex should help the company grow its market share.
- Capex: INR 450-500mn this year and the rest INR1,750mn next year.
- Bihar capex includes capex for water tanks as well.
- Earlier expected capex for the Bihar plant was INR 1.5 Billion which has now been revised to INR 2.2 Billion.
- FY 24 should see an outlay of INR 450-500 million and the rest (INR 1.75 billion) to be spent in FY25.
- Capex apart from Bihar
 - FY 24 – INR1.10-1.20bn
 - FY 25- INR 900-1000mn

Utilization

- Currently operating at 50-52% of capacity utilization
- Machines are running at ideal utilization levels in Jaipur for HDPE.

Miscellaneous:

- The company has taken price cuts in geographies where it felt its product had been priced at an excessive premium.

Government schemes

- The company has been participating in biddings for a few govt. projects but has been very selective (depending upon states) due to extended credit cycles.

Channel destocking

- PVC prices have been stable, changes in prices haven't been sharp as the range of change has been low.
- These changes haven't shocked the channel.
- In the immediate term, restocking or destocking will not be seen.
- Normal inventory is available with channel partners.
- PVC prices will be stable in the long term and thus should not result in string restocking/ destocking by partners.
- Over a long time frame, HDPE should contribute to 7-8% of the total sales.

CPVC

- There has been correction in CPVC and that has been passed on to the customer.
- The change would be in the range of 5-7%.

Inventory losses

- Inventory losses for Q3 stood at INR 100 million
- The company usually maintains raw material inventory of around 30 days and 30-40 days for finished goods
- CPVC inventory would be around 7 – 10 days.

Exhibit 1: Financial snapshot (INR mn)

| Year to March | Q3FY24E | Q3FY23 | % change | Q2FY24 | % change | FY24E |
|--|---------|--------|----------|--------|----------|--------|
| Revenues | 6,186 | 7,059 | (12.4) | 6,565 | (5.8) | 25,687 |
| Raw material | 4,316 | 5,483 | (21.3) | 4,511 | (4.3) | 18,340 |
| Staff costs | 373 | 311 | 19.8 | 405 | (7.9) | 1,451 |
| Others | 741 | 570 | 30.0 | 707 | 4.8 | 2,720 |
| Total expenditure | 5,430 | 6,364 | (14.7) | 5,623 | (3.4) | 22,511 |
| EBITDA | 757 | 695 | 8.9 | 942 | (19.7) | 3,176 |
| Depreciation | 229 | 211 | 8.8 | 225 | 1.7 | 909 |
| EBIT | 527 | 484 | 8.9 | 716 | (26.4) | 2,266 |
| Less: Interest Expense | 27 | 16 | 67.7 | 7 | 293.3 | 78 |
| Add: Other income | 30 | 12 | 147.0 | 40 | (23.8) | 137 |
| Profit Before Tax | 530 | 480 | 10.5 | 749 | (29.2) | 2,325 |
| Less: Provision for Tax | 154 | 126 | 22.0 | 222 | (30.6) | 581 |
| Add: Exceptional items | 0 | 0 | | 0 | | |
| Reported Profit | 376 | 354 | 6.3 | 527 | | 1,744 |
| Adjusted net profit | 376 | 354 | 6.3 | 527 | (28.6) | 1,744 |
| No. of Diluted shares outstanding (mn) | 110 | 110 | | 110 | | 110 |
| Adjusted Diluted EPS | 3.4 | 3.2 | 6.3 | 4.8 | (28.6) | 27.4 |
| P/E (x) | | | | | | 24.5 |
| EV/EBITDA (x) | | | | | | 22.6 |
| ROE(%) | | | | | | 12.1 |
| As % of net revenues | | | | | | |
| Raw material | 69.8 | 77.7 | | 68.7 | | 71.4 |
| Staff expenses | 6.0 | 4.4 | | 6.2 | | 5.6 |
| Other expenses | 12.0 | 8.1 | | 10.8 | | 10.6 |
| EBITDA | 12.2 | 9.8 | | 14.3 | | 12.4 |
| Net profit | 6.1 | 5.0 | | 8.0 | | 6.8 |

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 | 9.96 | New Mark Capita | 1.13 |
| Oman India Join | 2.03 | UTI AMC | 0.38 |
| DSP Investment | 1.77 | Dimensional Fun | 0.26 |
| Kuwait Investme | 1.53 | Prudential PLC | 0.23 |
| AB Sun Life AMC | 1.18 | Fundrock Mgmt | 0.12 |

*Latest public data

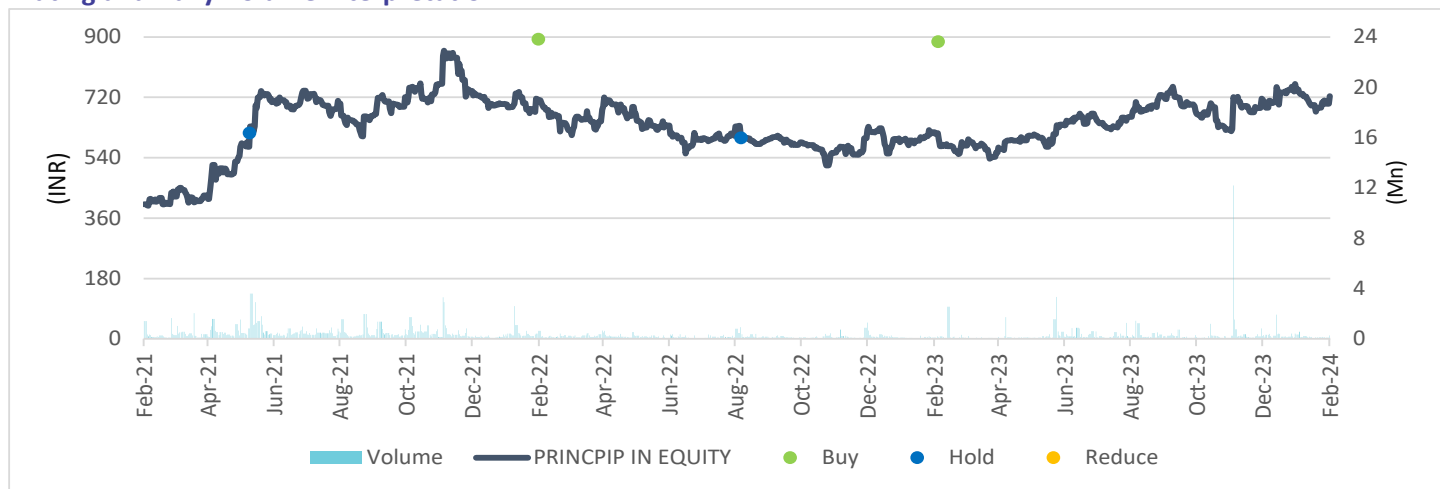
Recent Company Research

| Date | Title | Price | Reco |
|-----------|--|-------|------|
| 08-Nov-23 | Margins expand; price correction in play; <i>Result Update</i> | 710 | Buy |
| 08-Sep-23 | Playing up premiumisation ; <i>Company Update</i> | 714 | Buy |
| 11-Aug-23 | Mixed results; outlook robust; <i>Result Update</i> | 685 | Buy |

Recent Sector Research

| Date | Name of Co./Sector | Title |
|-----------|---------------------|---|
| 05-Feb-24 | Greenlam Industries | Q3 in line; particleboard plant delayed; <i>Result Update</i> |
| 05-Feb-24 | Century Plyboards | Volume and margins both face pressure; <i>Result Update</i> |
| 02-Feb-24 | Somany Ceramics | Sluggish demand leads to dull show; <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% | 202 |
| Hold | <15% and >-5% | 64 |
| Reduce | <-5% | 23 |

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