

August 11, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	816		718	
Sales (Rs. m)	29,117	34,798	30,335	34,313
% Chng.	(4.0)	1.4		
EBITDA (Rs. m)	3,589	5,021	4,106	4,999
% Chng.	(12.6)	0.4		
EPS (Rs.)	19.0	28.4	22.2	28.3
% Chng.	(14.7)	0.5		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	26,568	27,109	29,117	34,798
EBITDA (Rs. m)	4,188	2,503	3,589	5,021
Margin (%)	15.8	9.2	12.3	14.4
PAT (Rs. m)	2,526	1,214	2,097	3,143
EPS (Rs.)	22.9	11.0	19.0	28.4
Gr. (%)	10.3	(51.9)	72.7	49.9
DPS (Rs.)	3.5	-	3.5	3.5
Yield (%)	0.5	-	0.5	0.5
RoE (%)	21.9	9.2	14.5	18.8
RoCE (%)	27.8	12.4	19.0	24.6
EV/Sales (x)	2.9	2.8	2.5	2.1
EV/EBITDA (x)	18.4	29.8	20.7	14.6
PE (x)	30.2	62.8	36.4	24.3
P/BV (x)	6.0	5.6	5.0	4.2

Key Data

PRCE.BO | PRINCIPI IN

52-W High / Low	Rs.724 / Rs.510
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.76bn/ \$ 921m
Shares Outstanding	111m
3M Avg. Daily Value	Rs.224.97m

Shareholding Pattern (%)

Promoter's	60.94
Foreign	6.24
Domestic Institution	15.75
Public & Others	17.06
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.1	20.1	14.8
Relative	8.5	11.6	4.3

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Prince Pipes and Fittings (PRINCIPI IN)

Rating: ACCUMULATE | CMP: Rs690 | TP: Rs816

Healthy volume growth despite internal issues

Quick Pointers:

- Despite challenges, achieved volume growth of ~19% YoY in Q1FY24.
- EBITDA/kg down to ~Rs 12.2/kg (vs Rs 14.0/Kg in Q1FY23).

Prince Pipes and Fittings (PRINCIPI) has maintained its healthy volume growth guidance of higher double digit in FY24 and expects 13-15% margin in the near term given 1) healthy volume growth, 2) product mix towards VAP and 3) business stabilization post ERP implementation. We have maintained our FY25E earnings and increased target multiple to 29x (at 5yrs avg. PE, earlier 25x) with TP of Rs 816 (earlier Rs 718). However, after factoring Q1FY24 numbers we downward revise our FY24 earnings estimate by 14.7%. PRINCIPI reported EBITDA/kg of Rs 12.2/kg, but after excluding inventory loss (Rs100mn) & one time bathware launch expenses of Rs 20mn, EBITDA/kg stood at Rs ~15.4/kg, which is still considered healthy despite performance being materially disrupted. We believe performance should further improve with focus on increasing capacity utilization, premiumisation and better FCF generation. We estimate FY23-25E Sales/EBITDA/PAT CAGR of 13.3%/41.6%/60.9%, with volume CAGR of 17.3% and EBITDA margin of 14.4% in FY25E. Maintain 'Accumulate'.

Revenues decline of 8.4% YoY, PAT up by 22.4% YoY: PRINCIPI revenue came in at Rs 5.5bn (PLe: Rs5.0bn) in Q1FY24 with volume growth of ~19% YoY (PLe:-0.8%YoY), despite performance being materially disrupted, due to transitioning challenges arising from ERP implementation and decrease in realisation by ~23% YoY with correction in PVC resin prices by more than 40%. Gross margin expanded by 440 bps to 25.2% YoY, while EBITDA margin expanded by 90bps YoY to 8.2% in Q1FY24 (v/s PLe: 13.0% & cons. est. of 11.5%) due to unfavorable product mix and pipe-fitting ratio, given ERP issues relating to dispatch of fittings. Also, there was increase in agri pipe contribution on account of seasonality. PAT came at Rs 196mn (PLe: Rs 335mn & cons. est. Rs 272mn) in Q1FY24, with increase in other income and decline in interest cost. Working capital days stood at 59 days as of Jun'23 compared to 57 days in Mar'23 due to increase in inventory days from 57 to 73 days.

Con call highlights: 1) Operating results showed resilience, despite performance being materially disrupted, due to transitioning challenges arising from ERP implementation. 2) Advertisement expenses were Rs 120mn in Q1FY24; will be at 2% rev. in FY24. 3) EBITDA margin impacted in Q1FY24, which will normalize to 13-15% Q3FY24 onwards. 4) Planned to increase capacity by 20-30KMT in FY24 through brown field and by 40KMT in FY25 through Bihar facility. 5) Greenfield expansion in Bihar for ~40KMTAP capacity, operational by Q4FY25 with PVC/HDPE pipe. 6) East India contributes 15-20% revenue to PRINCIPI, which will improve with Bihar expansion. 7) Debtor days increased due to ERP disruption, which will normalize from Q2FY24. 8) Company has increased channel financing to 132 distributors from 70 and amount to Rs 1.05bn from Rs 700mn YoY. 9) Bathware segment started in Q1FY24, will take 12-18months to breakeven and 6-8 quarters to reach company level margin. 10) Bathware initially established its presence within B2B segment and is currently in the process of gradually expanding into B2C market, with investment in employee & advertisement.

Exhibit 1: Q1FY24 Result Overview: Revenue decline 8.4% YoY; PAT grew by 22.4% YoY

Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	5,536	6,041	(8.4)	7,644	(27.6)	27,109	26,568	2.0
Expenditure								
Operating & Manufacturing Expenses	4,142	4,785	(13.4)	5,121	(19.1)	20,922	18,915	10.6
<i>% of Net Sales</i>	<i>74.8</i>	<i>79.2</i>	<i>(4.4)</i>	<i>67.0</i>	<i>7.8</i>	<i>77.2</i>	<i>71.2</i>	<i>6.0</i>
Gross Profit	1,393	1,256	10.9	2,523	(44.8)	6,187	7,653	(19.2)
<i>% of Net Sales</i>	<i>25.2</i>	<i>20.8</i>	<i>4.4</i>	<i>33.0</i>	<i>(7.8)</i>	<i>22.8</i>	<i>28.8</i>	<i>(6.0)</i>
Personnel Cost	320	262	22.1	309	3.7	1,161	1,162	(0.1)
<i>% of Net Sales</i>	<i>5.8</i>	<i>4.3</i>	<i>1.4</i>	<i>4.0</i>	<i>1.7</i>	<i>4.3</i>	<i>4.4</i>	<i>(0.1)</i>
Other Expenses	620	555	11.6	731	(15.2)	2,523	2,335	8.0
<i>% of Net Sales</i>	<i>11.2</i>	<i>9.2</i>	<i>2.0</i>	<i>9.6</i>	<i>1.6</i>	<i>9.3</i>	<i>8.8</i>	<i>0.5</i>
Total Expenditure	940	818	15.0	1,040	(9.6)	3,684	3,497	5.3
EBITDA	453	439	3.3	1,483	(69.5)	2,503	4,156	(39.8)
<i>Margin (%)</i>	<i>8.2</i>	<i>7.3</i>	<i>0.9</i>	<i>19.4</i>	<i>(11.2)</i>	<i>9.2</i>	<i>15.6</i>	<i>(6.4)</i>
Other income	38	12	206.9	34	11.1	85	55	56.3
Depreciation	218	197	10.9	211	3.2	830	703	18.1
EBIT	235	242	(2.9)	1,272	(81.5)	1,673	3,453	(51.5)
Interest	17	34	(48.4)	28	(38.3)	110	139	(20.8)
PBT	256	221	15.9	1,278	(80.0)	1,648	3,369	(51.1)
Total Taxes	59	60	(1.5)	337	(82.4)	434	875	(50.4)
<i>ETR (%)</i>	<i>23.2</i>	<i>27.3</i>	<i>(4.1)</i>	<i>26.4</i>	<i>(3.1)</i>	<i>26.3</i>	<i>26.0</i>	<i>0.4</i>
Adj. PAT	196	160	22.4	941	(79.2)	1,214	2,494	(51.3)

Source: Company, PL

Exhibit 2: Key operating parameter: Volume grew by 18.9% YoY, while realization down by 22.9% YoY

Particulars	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Sales Volumes (KTPA)	37	31	18.9	44	(16.2)	158	139	13.4
Realization (Rs/kg)	149	193	(22.9)	172	(13.6)	172	191	(10.1)
EBITDA per unit (Rs/kg)	12.2	14.0	(13.1)	33.5	(63.6)	15.9	30.1	(47.3)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	26,568	27,109	29,117	34,798
YoY gr. (%)	28.3	2.0	7.4	19.5
Cost of Goods Sold	18,915	20,922	21,306	25,253
Gross Profit	7,653	6,187	7,811	9,545
Margin (%)	28.8	22.8	26.8	27.4
Employee Cost	1,520	1,531	1,679	1,717
Other Expenses	959	1,163	1,480	1,536
EBITDA	4,188	2,503	3,589	5,021
YoY gr. (%)	13.9	(40.2)	43.4	39.9
Margin (%)	15.8	9.2	12.3	14.4
Depreciation and Amortization	703	830	876	934
EBIT	3,485	1,673	2,712	4,087
Margin (%)	13.1	6.2	9.3	11.7
Net Interest	139	110	71	86
Other Income	55	86	154	200
Profit Before Tax	3,401	1,648	2,795	4,200
Margin (%)	12.8	6.1	9.6	12.1
Total Tax	875	434	699	1,057
Effective tax rate (%)	25.7	26.3	25.0	25.2
Profit after tax	2,526	1,214	2,097	3,143
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,526	1,214	2,097	3,143
YoY gr. (%)	10.8	(51.9)	72.7	49.9
Margin (%)	9.5	4.5	7.2	9.0
Extra Ord. Income / (Exp)	18	(2)	-	-
Reported PAT	2,545	1,213	2,097	3,143
YoY gr. (%)	9.4	(52.4)	72.9	49.9
Margin (%)	9.6	4.5	7.2	9.0
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	2,547	1,213	2,097	3,143
Equity Shares O/s (m)	111	111	111	111
EPS (Rs)	22.9	11.0	19.0	28.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	9,425	10,419	11,919	13,419
Tangibles	9,384	10,363	11,863	13,363
Intangibles	41	56	56	56
Acc: Dep / Amortization	2,624	3,454	4,330	5,264
Tangibles	2,624	3,454	4,330	5,264
Intangibles	-	-	-	-
Net fixed assets	6,801	6,965	7,588	8,154
Tangibles	6,760	6,909	7,532	8,098
Intangibles	41	56	56	56
Capital Work In Progress	226	236	236	236
Goodwill	-	-	-	-
Non-Current Investments	97	90	90	90
Net Deferred tax assets	(123)	(137)	(137)	(137)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	6,188	4,256	4,670	5,535
Trade receivables	4,346	4,150	4,458	5,327
Cash & Bank Balance	687	2,161	2,758	3,868
Other Current Assets	1,041	679	730	872
Total Assets	19,390	18,542	20,533	24,087
Equity				
Equity Share Capital	1,106	1,106	1,106	1,106
Other Equity	11,547	12,534	14,244	17,000
Total Network	12,653	13,640	15,349	18,106
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	127	138	138	138
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,500	581	624	746
Trade payables	3,986	3,202	3,439	4,110
Other current liabilities	1,002	814	815	820
Total Equity & Liabilities	19,390	18,542	20,533	24,087

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	3,369	1,648	2,795	4,200
Add. Depreciation	703	830	876	934
Add. Interest	139	110	71	86
Less Financial Other Income	55	86	154	200
Add. Other	(22)	(86)	(154)	(200)
Op. profit before WC changes	4,188	2,503	3,589	5,021
Net Changes-WC	(3,499)	1,566	(532)	(1,202)
Direct tax	(875)	(434)	(699)	(1,057)
Net cash from Op. activities	(185)	3,635	2,358	2,761
Capital expenditures	(1,680)	(1,004)	(1,500)	(1,500)
Interest / Dividend Income	55	86	154	200
Others	(35)	14	-	-
Net Cash from Invt. activities	(1,660)	(904)	(1,346)	(1,300)
Issue of share cap. / premium	5	-	-	-
Debt changes	648	(919)	43	122
Dividend paid	(387)	-	(387)	(387)
Interest paid	(139)	(110)	(71)	(86)
Others	105	(227)	-	-
Net cash from Fin. activities	233	(1,256)	(415)	(351)
Net change in cash	(1,612)	1,474	597	1,110
Free Cash Flow	(1,865)	2,631	858	1,261

Source: Company Data, PL Research

Key Financial Metrics

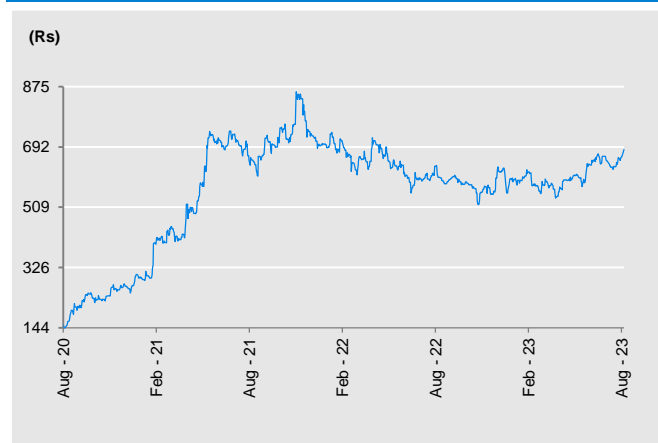
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	22.9	11.0	19.0	28.4
CEPS	29.2	18.5	26.9	36.9
BVPS	114.4	123.4	138.8	163.8
FCF	(16.9)	23.8	7.8	11.4
DPS	3.5	-	3.5	3.5
Return Ratio(%)				
RoCE	27.8	12.4	19.0	24.6
ROIC	21.5	10.2	16.5	22.6
RoE	21.9	9.2	14.5	18.8
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	90	70	71	71
Valuation(x)				
PER	30.2	62.8	36.4	24.3
P/B	6.0	5.6	5.0	4.2
P/CEPS	23.6	37.3	25.7	18.7
EV/EBITDA	18.4	29.8	20.7	14.6
EV/Sales	2.9	2.8	2.5	2.1
Dividend Yield (%)	0.5	-	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	6,365	7,059	7,644	5,536
YoY gr. (%)	(16.4)	6.3	(15.2)	(8.4)
Raw Material Expenses	5,533	5,483	5,121	4,142
Gross Profit	832	1,576	2,523	1,393
Margin (%)	13.1	22.3	33.0	25.2
EBITDA	(113)	695	1,483	453
YoY gr. (%)	(109.2)	(37.5)	5.6	3.3
Margin (%)	(1.8)	9.8	19.4	8.2
Depreciation / Depletion	212	211	211	218
EBIT	(325)	484	1,272	235
Margin (%)	(5.1)	6.9	16.6	4.2
Net Interest	32	16	28	17
Other Income	27	12	34	38
Profit before Tax	(330)	480	1,278	256
Margin (%)	(5.2)	6.8	16.7	4.6
Total Tax	(89)	126	337	59
Effective tax rate (%)	27.0	26.3	26.4	23.2
Profit after Tax	(241)	354	941	196
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(241)	354	941	196
YoY gr. (%)	(131.7)	(47.4)	6.7	22.4
Margin (%)	(3.8)	5.0	12.3	3.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(241)	354	941	196
YoY gr. (%)	(131.7)	(47.4)	6.7	22.4
Margin (%)	(3.8)	5.0	12.3	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(241)	354	941	196
Avg. Shares O/s (m)	111	111	111	111
EPS (Rs)	(2.2)	3.2	8.5	1.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-23	Accumulate	718	657
2	26-May-23	BUY	716	610
3	06-Apr-23	BUY	693	574
4	01-Mar-23	BUY	693	552

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,955	1,924
2	Bajaj Electricals	Accumulate	1,337	1,220
3	Century Plyboard (I)	BUY	800	629
4	Cera Sanitaryware	Hold	8,224	7,917
5	Crompton Greaves Consumer Electricals	BUY	338	286
6	Finolex Industries	Accumulate	197	184
7	Greenpanel Industries	BUY	459	341
8	Havells India	BUY	1,460	1,348
9	Kajaria Ceramics	Hold	1,363	1,393
10	KEI Industries	Hold	2,319	2,270
11	Polycab India	Accumulate	4,760	4,309
12	Prince Pipes and Fittings	Accumulate	718	657
13	Supreme Industries	Hold	3,377	3,382
14	Voltas	Hold	813	767

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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