

# Prince Pipes

## Progress in the (pipe)line

We initiate coverage on Prince Pipes (Prince) with a BUY rating and a target price of INR 830/share. We like Prince for its focussed presence in the fast-growing plastic pipes business. The company's comprehensive product portfolio covering plumbing, irrigation, and SWR management and robust pan-India distribution network has helped it ramp up sales from its accelerated capacity expansion. These drove up its solid 10-year revenue/EBITDA/APAT CAGR of 17/28/32%. We expect earnings growth to remain strong and cash conversion to improve further, riding on robust demand, Prince's continued expansion/capacity ramp-up and its pan-India franchise.

- **Notable growth trajectory:** Over the past 10 years, Prince Pipes' revenue/EBITDA/APAT have grown at stellar 17/28/32% CAGRs respectively. This is driven by 10% volume CAGR (despite weak volumes in FY21), as the company continued to expand capacity, product range, and distribution across India. Robust demand tailwinds have boosted its growth journey. With over 1,500 distributors across India, it has a strong retail presence (90% of its sales). Prince has a comprehensive product profile of 7,200 SKUs, covering plumbing, irrigation, and SWR management.
- **Strong earnings outlook:** We expect Prince's volume growth to accelerate, driven by rising industry consolidation and the company's robust distribution, which should aid healthy capacity ramp-up. The deal with Lubrizol for its FlowGuard CPVC pipes will further support the company's market share. While we expect reversal of the large (PVC) inventory gains seen in FY21, robust demand and operating leverage gains should support EBITDAM at 14-15% during FY22-23E. Thus, we estimate revenue/EBITDA/APAT to further grow at 21/13/17% CAGRs during FY21-23E, even on a high base of FY21.
- **Healthy balance sheet and cash flow:** Over the past 5-6 years, Prince has reduced its cash conversion cycle to two months from three. It expects to tighten it further through better debtor management. Riding on robust earnings and healthy working capital, the company has been able to accelerate Capex in the past five years. With a net cash balance sheet and strong franchise, it can continue to grow at a fast pace.
- **Initiate coverage with a BUY rating:** Since its IPO in Jan'20, Prince's stock price has soared 3x, as it continues to enjoy valuation rerating. As we expect a brighter outlook for the company, the valuation rerating should continue, in our view. We initiate coverage on the stock with a BUY rating and a TP of INR 830/share (18.5x its Mar'23E EBITDA, implying 31x P/E).

### Financial summary

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	10,090	12,465	13,150	15,718	16,357	20,715	26,031	30,300
EBITDA	1,034	1,626	1,633	1,840	2,288	3,616	3,556	4,652
EBITDAM (%)	10.2	13.0	12.4	11.7	14.0	17.5	13.7	15.4
APAT	311	742	728	821	1,125	2,218	2,200	3,018
AEPS (INR)	6.5	16.5	8.1	9.1	10.2	20.2	20.0	27.4
P/E (x)	245.7	103.1	105.1	93.2	68.0	34.5	34.8	25.3
EV / EBITDA (x)	76.7	48.9	49.0	43.1	33.5	20.8	20.6	15.4
RoE (%)	18.4	34.8	26.0	22.9	18.2	23.6	19.4	22.3

Source: Company, HSIE Research

**BUY**

CMP (as on 25 Jun 2021)	INR 695
Target Price	INR 830
NIFTY	15,860

### KEY STOCK DATA

Bloomberg code	PRNCPIP IN
No. of Shares (mn)	110
MCap (INR bn) / (\$ mn)	77/1,028
6m avg traded value (INR mn)	278
52 Week high / low	INR 795/102

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	67.6	155.8	530.7
Relative (%)	58.3	143.1	478.8

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	63.25	63.25
FIs & Local MFs	16.24	15.60
FPIs	0.83	2.43
Public & Others	19.68	18.72
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

### Rajesh Ravi

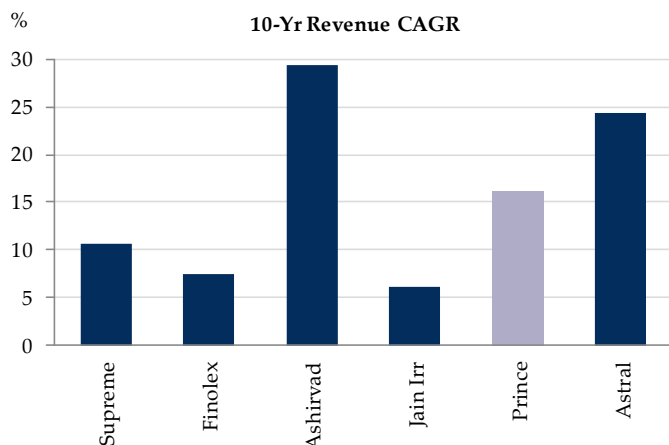
rajesh.ravi@hdfcsec.com  
+91-22-6171-7352

### Saurabh Dugar

saurabh.dugar@hdfcsec.com  
+91-22-6171-7353

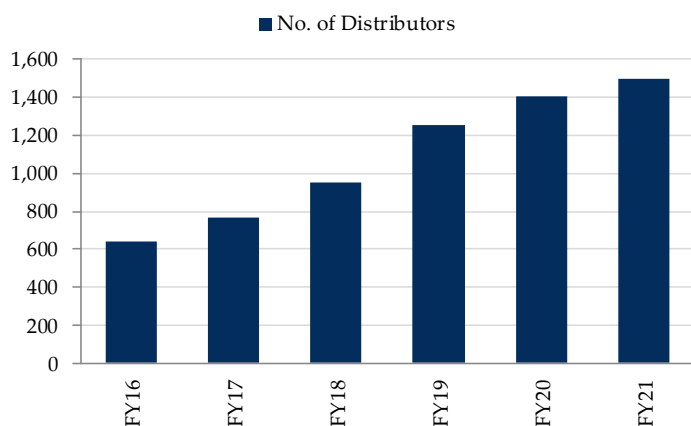
## Focus Charts

### Prince has been growing at industry leading pace



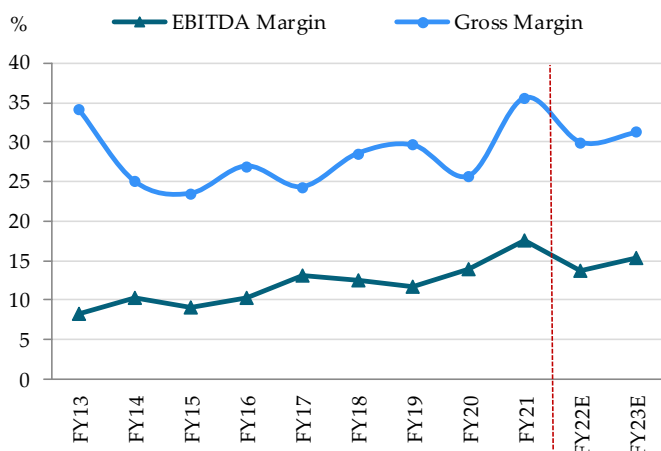
Source: Company, HSIE Research

### It has a large distribution across India which it continues to grow at fast pace



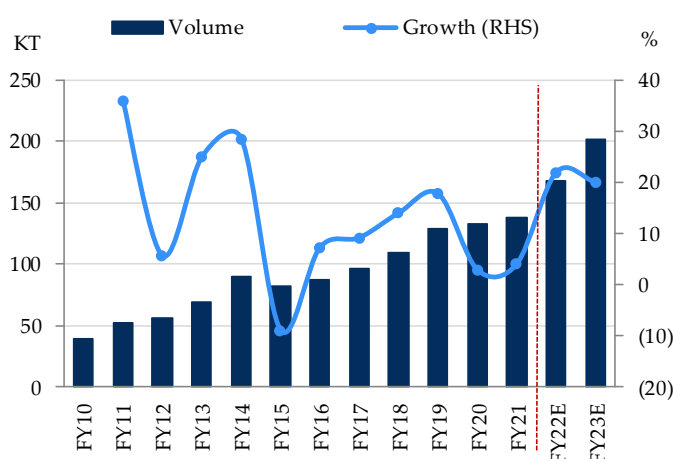
Source: Company, HSIE Research

### Robust demand and consolidation bolsters gross and EBITDA margins in FY21



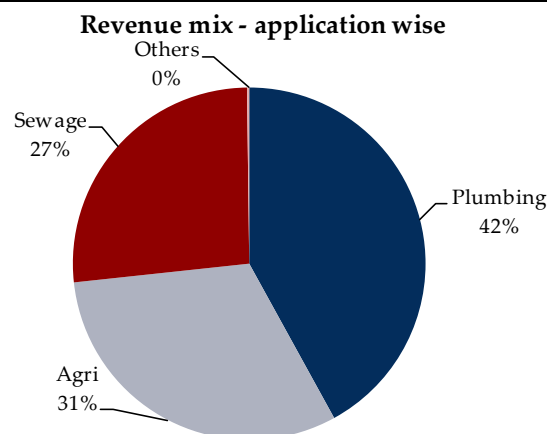
Source: Company, HSIE Research

### Volume and growth trends FY10 onwards



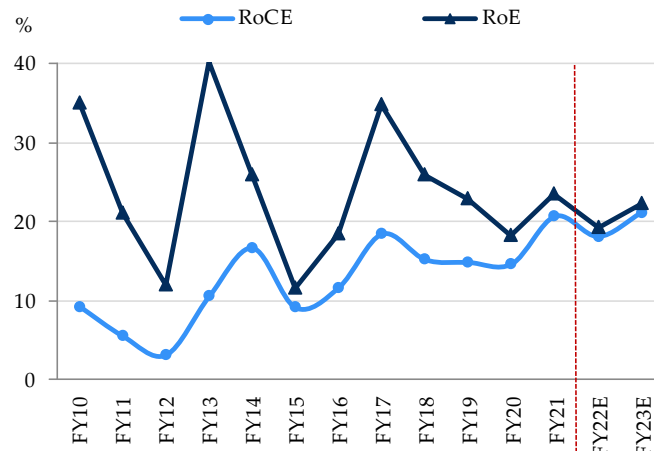
Source: Company, HSIE Research

### Comprehensive portfolio of all types of pipes, comprising of 7,200 SKUs



Source: Company, HSIE Research

### Robust return ratios



Source: Company, HSIE Research

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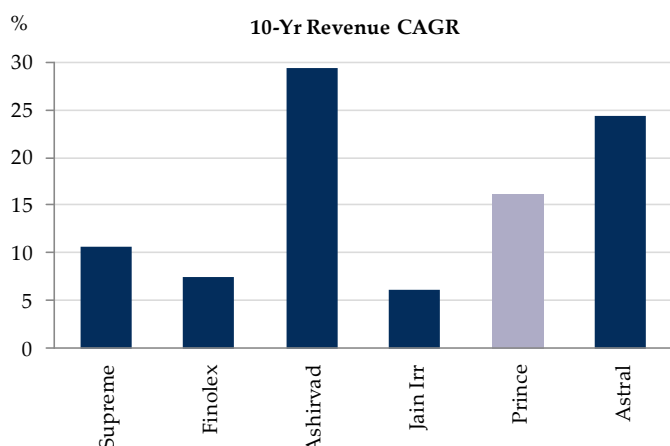
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## Fast catching up with market leaders

Incorporated in 1987, Prince Pipes is among the major manufacturers of plastic pipes and fittings in India currently. With an installed capacity of 260KT (Mar'21), it has ~5% market share in the Indian plastic pipe industry. Its capacity is spread across north, west, and south regions in India. In the eastern states of Bihar and Odisha, it is largely catering through outsourced plants. Prince offers pipes and fitting for plumbing, irrigation, and sewage disposal. The company went public at the end of Dec'19. Promoters currently own 63% in the company.

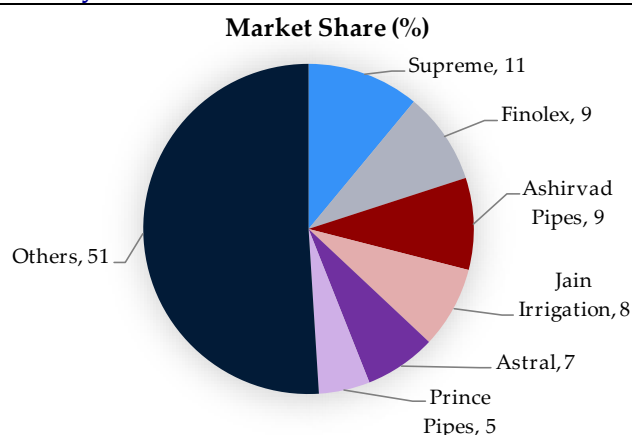
Prince Pipes has been a growth-focused company and has become a major player in the industry currently. Supported by strong demand tailwinds, its revenue has grown at 16% CAGR over the past 10 years.

### Prince is among the fastest growing pipe manufacturers in India...



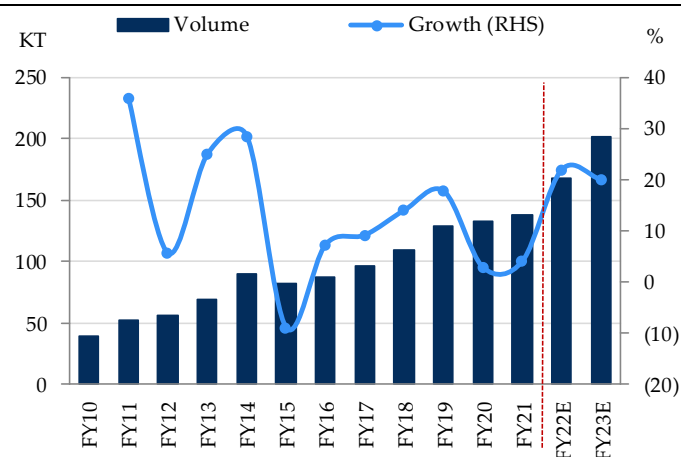
Source: Company, HSIE Research

### ...thereby becoming it the sixth largest pipe company currently



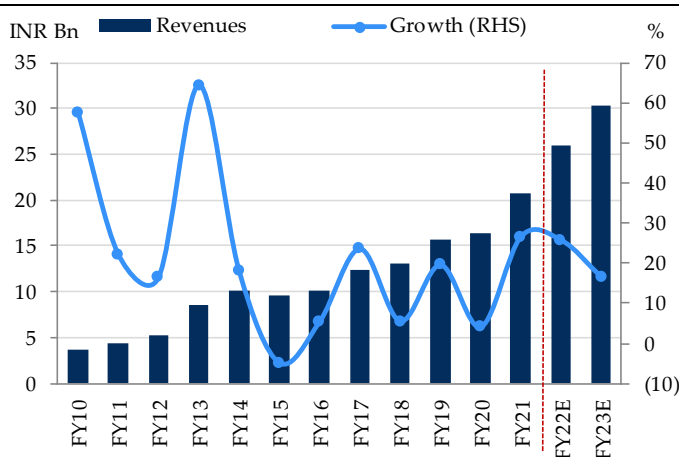
Source: Industry, HSIE Research

### Volume trend



Source: Company, HSIE Research

### Revenue trend



Source: Company, HSIE Research

## Well spread capacities

Prince's capacity is spread across north (42%), west (35%) and south (23%) of India. It has been the first mover in the north through setting up of capacity in Haridwar (Uttarakhand) in 2008. It ventured into south through inorganic acquisition in 2012 and set up a greenfield project in Telangana in 2021. In the east, the company is currently catering to demand, mostly through outsourced products. Over the next two years, Prince is increasing the capacities of its Telangana plant to 50KT and Rajasthan plant to 40KT. These will expand its installed capacity to 310KT by Mar'23E (vs 260KT in Mar'21).

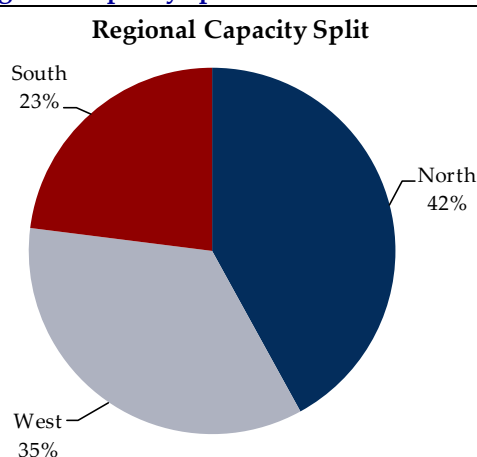
In June'20, Prince also entered the water tank business with launch of the *Storefit* brand in Gujarat. It has set up a small manufacturing facility at Dadra and has outsourced capacities across north, west and south markets. The company is currently operating an opex model for penetrating deeper in this business. It will use its pipes and fitting channels to sell its *Storefit* branded tanks.

### Prince's capacity details

Year of commissioning	Location	Region	Installed Capacity (KT)	Products
1995	Athal	UT of Dadra and Nagar Haveli (West)	16.0	Fittings
2000	Dadra	UT of Dadra and Nagar Haveli (West)	59.2	Pipes
2008	Haridwar	Uttarakhand (North)	77.6	Pipes and fittings
2012	Chennai	Tamil Nadu (South)	62.1	Pipes
2012	Kolhapur	Maharashtra (West)	20.0	Pipes
2019	Jaipur	Rajasthan (North)	20.9	Pipes: <u>to be expanded to 40KT by 2022</u>
2020	Sangareddy	Telangana (South)	4.0	Pipes and fittings: <u>to be expanded to 50KT by 2023</u>

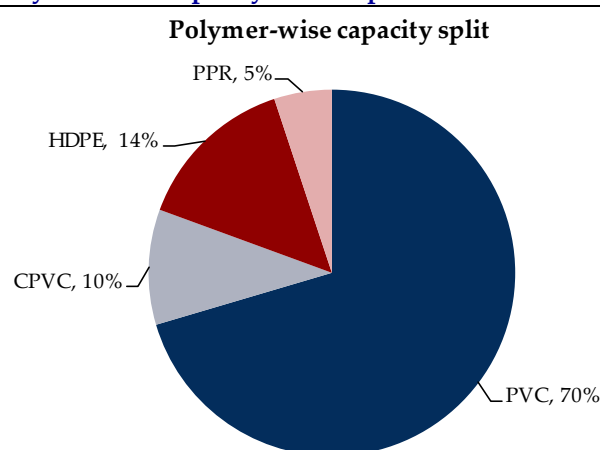
Source: Company, HSIE Research

### Prince's regional capacity spread



Source: Industry, HSIE Research

### Polymer-wise capacity break-up



Source: Industry, HSIE Research

## Large SKUs of product for various applications

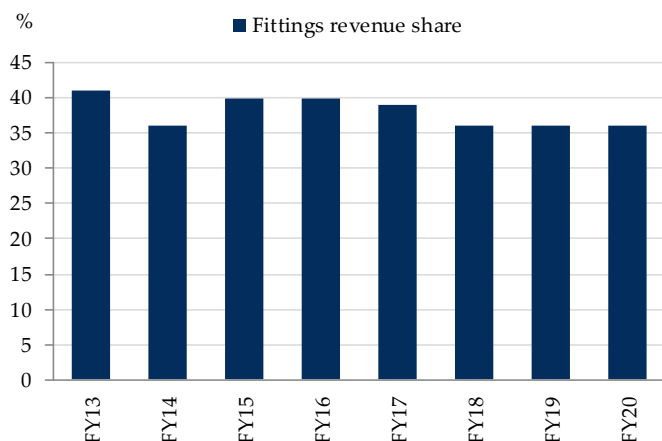
Prince manufactures polymer pipes using UPVC, CPVC, PPR and HDPE, and fittings using UPVC, CPVC and PPR. It has a large product portfolio of more than 7,200 SKUs, for applications in the fields of plumbing, irrigation, and SWR management.

The company has a healthy mix of pipes and fitting in the ratio of 65% and 35% respectively. It will continue to maintain this ratio, thereby benefitting from the high-margin fittings segment.

In terms of applications, ~30-35% of its revenue comes from agriculture segments (borewell and irrigation) and the rest comes from building materials (plumbing and SWR). Over the past several years, Prince has also scaled up high-margin CPVC pipes sales. The share of CPVC pipes in its revenue has increased to 20% currently from 15% about 5-6 years back. Thus, its CPVC revenue has grown at ~20% CAGR vs total revenue CAGR of 12% in the past 5-6 years. Prince has ~10% market share in the largely organised CPVC segment in India.

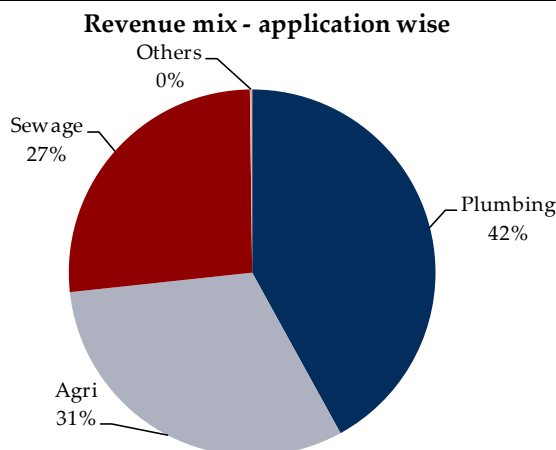
Technical arrangement with Tooling Holland: In 2QFY20, Prince entered a technical collaboration with Tooling Holland BV, a company that has 40 years of experience in mould making and tooling. The goal of this technical partnership is to achieve optimal product design and mould layout, which will also help optimise production costs while delivering superior product. During Dec'14-Dec'19, Prince benefitted from a similar technical collaboration with Wavin. This collaboration assisted the company in manufacturing and quality enhancement of plastic pipes, plant's productivity improvement, and sales.

### Fittings comprise one-third of revenues



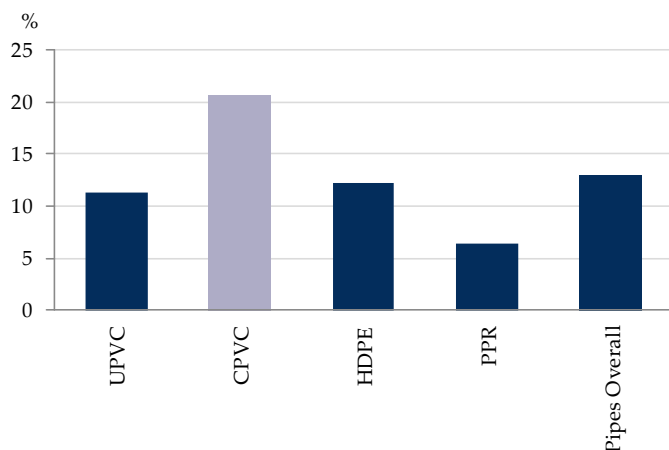
Source: Industry, HSIE Research

### Prince has product offerings for varied usage



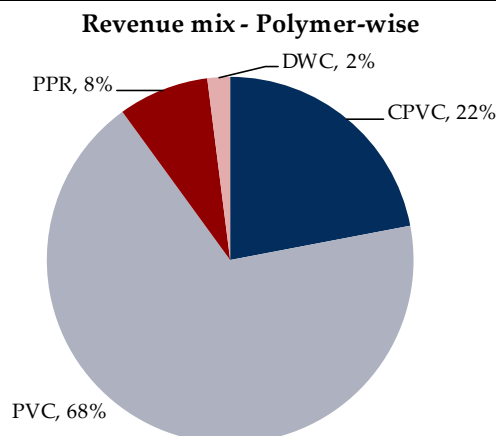
Source: Industry, HSIE Research

## CVPC market is expected to continue to grow at a faster pace vs other plastic pipes



Source: Industry, HSIE Research

## Prince derives 20% of its revenue from CPVC and has 10% market share in this



Source: Industry, HSIE Research

## Prince product offering range



Source: Company, HSIE Research

## Strong distribution supporting industry leading growth

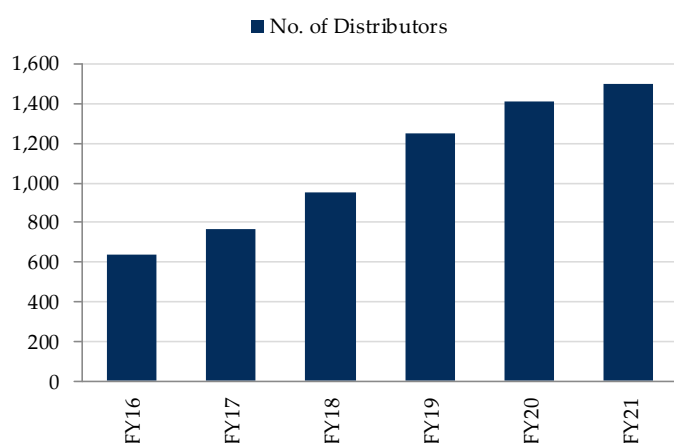
Prince is largely focused on the retail segment, which accounts for ~90% of its total sales. Its distribution is spread across all parts of India. It has expanded its distribution into tier 2/3 semi urban regions and rural markets. Over the past five years, it has almost doubled its channel partner count to >1,500. Almost 80% of its distributors are exclusive in nature, giving it a strong market positioning. On an average, the company expects each of its distributors to service about 300 retailers.

In Nov'16, Prince had launched a loyalty program aimed at tracking the buying behavior of its distributors, dealers, retailers and plumbers, through use of digital channel. Every purchase by the channel partners attracts a reward which can be redeemed for various gifts. In turn, Prince is able to digitally map buying behavior of its retail network and accordingly create pull factors, thus driving sales.

The company has two brands – Prince Pipes (across India) and Trubore (in the southern region). Currently, it has a strong positioning in the north and west markets. The recently commissioned Telangana plant will help the company establish in the southern region as a strong brand.

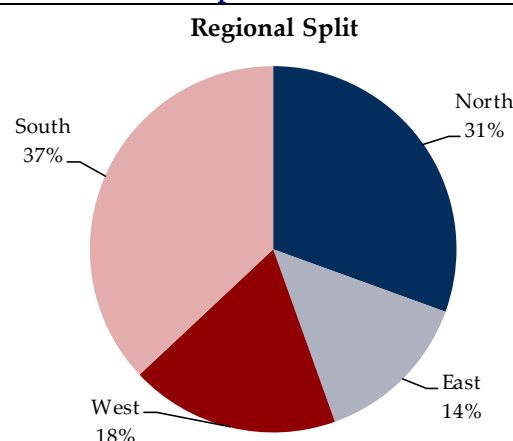
The company is, however, aspiring to also gain traction in the non-trade (B2B) segment (currently it sells only 10%), which is a huge growth opportunity. The management is of the view that success in the non-trade business will also have positive ripple effect on its retail sales. As B2B is largely a relationship business that requires a long gestation period, Prince is working to build the right team over the next few quarters, which would drive its non-trade sales.

## Prince's distribution base rising at a fast pace



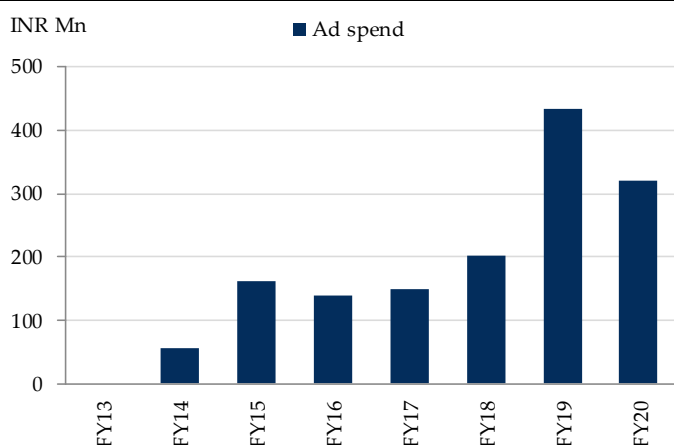
Source: Company, HSIE Research

## Its distribution is well spread across India



Source: Company, HSIE Research

## Advertisement/branding spend trend



Source: Company, HSIE Research

## Akshay Kumar is Prince's brand ambassador



Source: Company, HSIE Research



## Lubrizol deal to boost volume and margin growth

In Aug'20, Prince Pipes entered a deal with Lubrizol Advanced Materials Inc (inventors and largest manufacturers of CPVC compound worldwide) for manufacturing and marketing of its FlowGuard Plus CPVC pipes under the Prince brand. The company started selling FlowGuard pipes through its distribution network from Oct'20 onwards.

Prince expects acceleration in its CPVC product sales, owing to strong market acceptance of the Lubrizol's Flowguard product in the Indian market. Thus, the share of high-margin CPVC in its total revenue should increase (from 20% currently), thereby boosting its market share (which is 10% at present). The company believes this deal will help faster ramp-up of the recently commissioned Telangana plant.

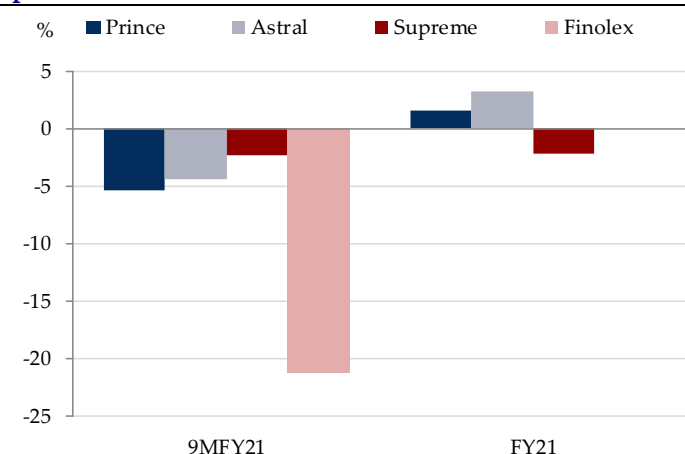
Lubrizol has a compounding plant in Dahej, which increases its local sourcing capabilities. Additionally, Lubrizol is planning to expand its CPVC resin capacity in India, which will further aid Prince's local sourcing.

As per the company, the Lubrizol deal has accelerated Prince's engagement with quality distributors India. The strong brand equity for FlowGuard will also help it cross sell Prince's PVC/HDPE product range. The company is also hopeful of gaining better traction in its non-trade sales. Prince has identified key priority markets (low hanging fruits) and will increase its brand activities to boost sales. While it does not expect increase in gross margin on FlowGuard, higher utilisation will accelerate operating leverage gains, thereby boosting margin.

## Robust volume and margin outlook

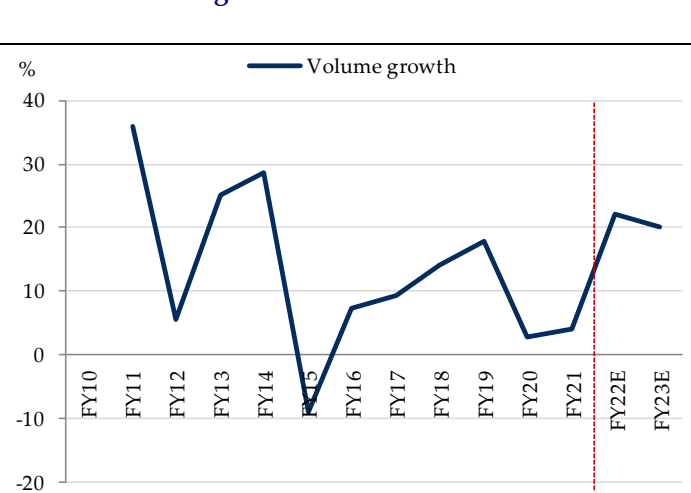
Over the past five and ten years, Prince has delivered 9% and 10% volume CAGRs, riding on robust demand, its strong product portfolio, and large retail distribution network. This is despite volume loss during 4QFY20 and 1QFY21 muting the long-term growth. With sustenance of demand across its building material segment (plumbing and SWR), the company's strong retail focus, and expected sales traction from Lubrizol deal, we expect volume growth to accelerate by 21% CAGR during FY21-23E. The low base of FY21 (sales loss in 1Q) should also aid the strong growth outlook.

9M/FY21 volume growth (YoY) trend for Prince and its peers



Source: Company, HSIE Research

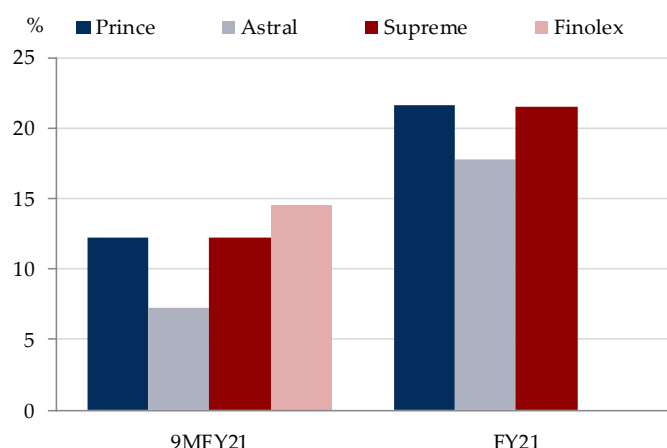
Prince's volume growth trend



Source: Company, HSIE Research

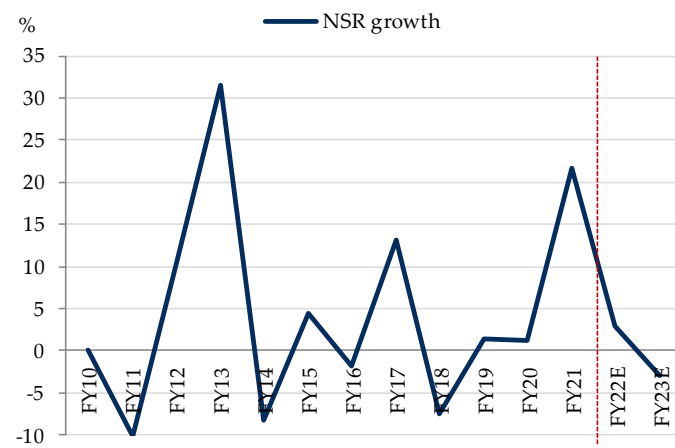
On the realisation front, Prince's NSR soared 22% in FY21, as it (along with the industry) was able to pass on the sharp increase in raw materials price (mainly PVC resins), supported by demand tailwinds and increasing consolidation. The industry majors expect PVC resin prices to cool off 2QFY22 onwards to some extent, which in turn will be passed on to end consumers. Thus, we expect NSR to peak out in 1QFY22, leading to flattish NSR trend during FY21-23E.

## 9M/FY21 NSR change (YoY) trend for Prince and its peers



Source: Company, HSIE Research

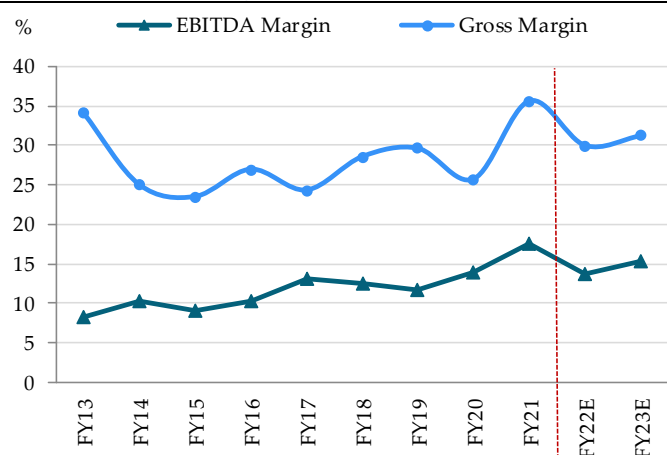
## Prince's NSR growth trend



Source: Company, HSIE Research

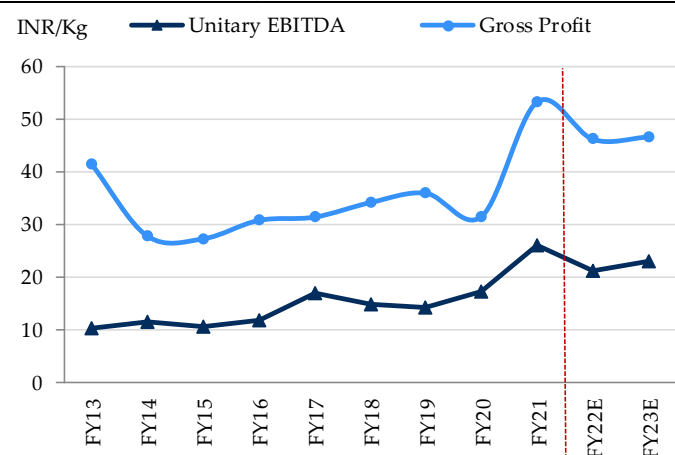
During FY21, Prince's gross margin expanded by ~10pp YoY, of which inventory gains accounted for ~350bps (one-thirds of the gain). We expect this to reverse in FY22 as we build in reduction in the PVC resin and pipes realisation. However, we still expect gross margin to remain strong at ~30-31% level, owing to sustenance of industry's pricing power. This, in turn, should support Prince's EBITDA at 14-15% during FY22-23E.

## Gross/EBITDA margins trend (%)



Source: Company, HSIE Research

## Gross/EBITDA margins trend (INR/KG)



Source: Company, HSIE Research

## Operational trends and assumptions

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Pipes Sales Volume (KT)	82.0	88.0	96.1	109.6	129.1	132.8	138.3	168.7	202.5
YoY (%)	(8.9)	7.3	9.2	14.0	17.8	2.9	4.1	22.0	20.0
NSR (Rs/KG)	117	115	130	120	122	123	150	154	150
YoY (%)	4.4	(1.8)	13.1	(7.5)	1.5	1.2	21.6	3.0	(3.0)
Gross margin (%)	23.4	26.9	24.3	28.5	29.6	25.7	35.6	29.9	31.2

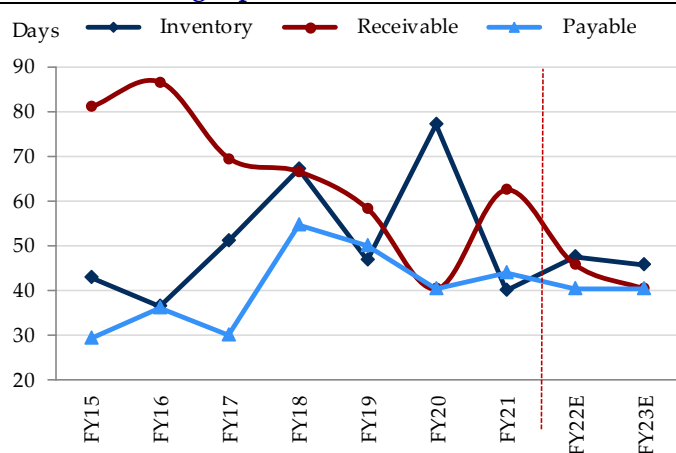
Source: Company, HSIE Research

## Working capital profile strengthening

Prince's cash conversion cycle (CCC) has improved over the years: as against CCC of three months during FY15-17, it has improved to two months in FY21. The improvement is led by reduction in debtor days (increased collection efficiency) and rise in payables days (indicative of better terms with suppliers). However, we note that Prince's debtor days can potentially reduce further, in line with that of pipes majors Supreme Industries and Astral. The management noted that it is working towards the same.

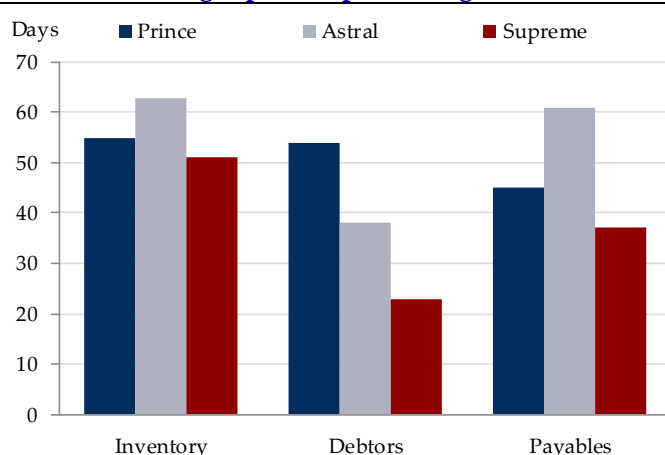
During 2HFY21, the company also recovered fully the INR 400mn advances given to a related-party company - Prince Marketing. This has both improved the balance sheet and the company's corporate governance focus.

Prince's working capital trend



Source: Company, HSIE Research

Prince's working capital vs peers (Avg FY19-21)



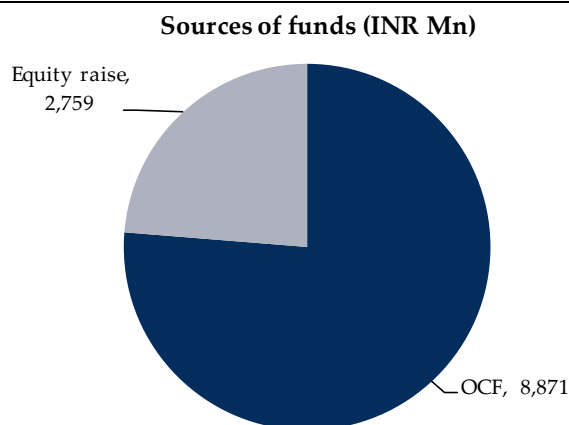
Source: Company, HSIE Research

## Cash flow analysis

During FY15-21, while Prince's revenue doubled, its core working capital has remained stable at ~INR 3bn, indicating robust working capital management. Thus, its EBITDA to OCF (before tax) conversion stands at a healthy ~95%. As the company expects to further tighten its debtor days, the cash conversion should further improve.

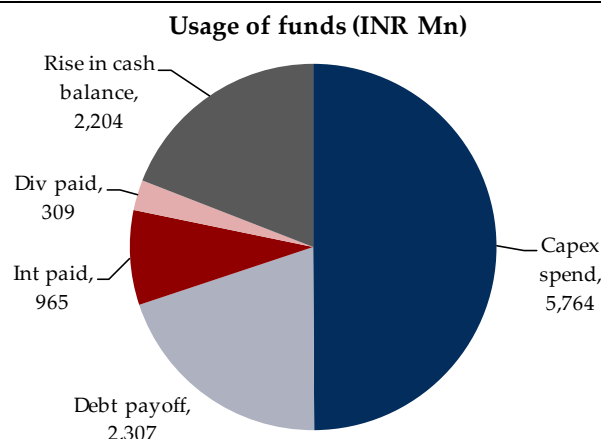
The company has accelerated its Capex spend in the past five years (INR 5.8bn during FY17-21), which account for ~70% of its total Capex spend in the past 10 years. Healthy operating cash flow generation has largely been sufficient to meet the spend during the period. The company has also used the cash proceeds from IPO issuance to reduce debt on its books, and has managed to turn a net cash company. The company is well geared to grow at a faster pace, as we also expect healthy operating cash flow generation.

### Sources of cash (FY17-21)



Source: Company, HSIE Research

### Usage of cash (FY17-21)



Source: Company, HSIE Research

## Du-Pont analysis – return ratios firming up

Prince's net profit margin scaled up to a decade-high of 11% in FY21, riding on strong growth, operating margin expansion and fall in interest expense. Its asset turnover also remains high at 1.8x, though it has reduced slightly from 2x until FY19, owing to accelerated expansions in the past few years. The return ratios have expanded despite significant balance sheet deleveraging.

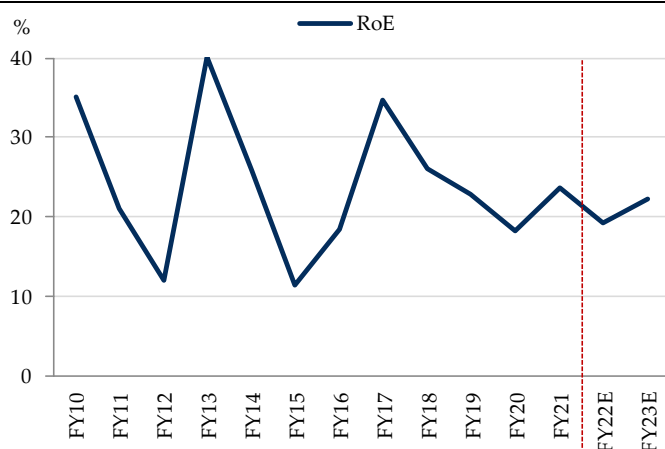
Going ahead, we expect the RoE to contract from the peak of 23.6% in FY21, as we expect the benefits of sharp inventory gains to reverse. However, we still expect RoE to remain at a healthy level of 19-22%, as we expect firm-up in asset turnover. We expect the leverage factor to further cool off over the next two years.

### Du Pont analysis

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net margin (%)	3.1	6.0	5.5	5.2	6.9	10.7	8.4	9.9
Asset turnover (x)	2.0	2.2	2.0	2.1	1.7	1.8	2.1	2.1
Leverage factor (x)	2.9	2.6	2.4	2.0	1.5	1.2	1.1	1.1
<b>RoE (%)</b>	<b>18.4</b>	<b>34.8</b>	<b>26.0</b>	<b>22.9</b>	<b>18.2</b>	<b>23.6</b>	<b>19.3</b>	<b>22.2</b>

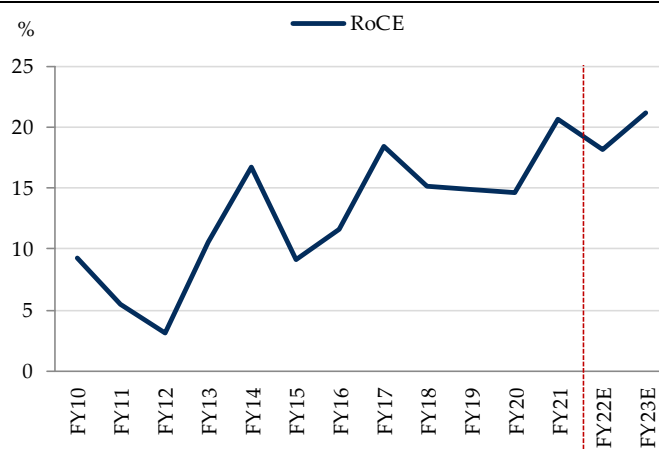
Source: Company, HSIE Research

### RoE trend



Source: Company, HSIE Research

### RoCE trend



Source: Company, HSIE Research

## Valuation and recommendation

The stock of Prince has generated astronomical returns for its shareholders in the past 1.5 years - since its IPO. The stock price has grown more than 3x since its listing in Jan'20. The valuation rerating is supported by robust sector macros, Prince's strong operating performance, and the recovery of the cash advance given to its related party. The Lubrizol deal has also contributed to healthy growth outlook, boosting valuations.

We expect continued industry tailwinds (demand and pricing power) to keep Prince's operating metrics and return ratios healthy and support its growth plans.

We initiate coverage on the stock with a BUY rating and a TP of INR 830/share (18.5x its Mar'23E EBITDA, implying 31x PE). Our target valuation implies a discount to those of Supreme Industries and Astral Limited, which we value at 19x and 34x Mar'23E EBITDA respectively. On PE basis, our implied valuations for Supreme Industries and Astral stand at 35x and 53x Mar'23E respectively.

## Key risks

**Demand slump:** The second wave of COVID has already slowed sales offtake in 1QFY21. While companies are of the view that a large chunk of the loss should be covered in subsequent quarters, a third wave of COVID could play spoil-sport and hit revenue and profit.

**Sharp rise in resin prices:** If the PVC resin prices continue to soar high on global demand supply imbalance, it will further impact demand from the price-sensitive agri-segment (which forms 30% of Prince's sales). Even in the plumbing segment, the rising prices for PVC system can moderate demand and, hence, the overall margin.

## 4QFY21 performance

During 4QFY21, Prince's revenue soared 77% YoY, driven by 26/41% volume and NSR rise YoY. The robust volume growth is mainly on account of a weak base YoY.

COVID lockdown across India post mid Mar'20 had led to ~INR 1.2-1.3bn of sales loss for Prince in 4QFY20. Adjusted for the same, volumes were flattish YoY and adjusted revenue rose ~35% YoY. Continued pass-through of the PVC prices have yielded in 4QFY21 NSR rising 23/41% QoQ/YoY.

Gross margin expanded 10pp YoY to 35%, led by strong price hikes to pass on the resin price inflation and inventory gains. Prince recorded ~INR 300-350mn of inventory gains in 4Q.

Prince used a large chunk of the inventory gains to accelerate brand promotion expenses (which was slower in the preceding nine months). As against normal run-rate of 2-3% of net sales, Prince spent 4.5% of its 4Q revenue on branding/advertisements. The increase was also to promote the FlowGuard piping systems.

### 4Q/FY21 financial snapshot

	Mar-21	Mar-20	YoY %	Dec-20	QoQ %	FY21	FY20	YoY %
<b>Net Sales</b>	<b>7,614</b>	<b>4,308</b>	<b>76.7</b>	<b>5,490</b>	<b>38.7</b>	<b>20,715</b>	<b>16,357</b>	<b>26.6</b>
Raw Materials	4,961	2,994	65.7	3,564	39.2	13,789	11,264	22.4
Employee	275	242	13.7	275	0.0	997	901	10.6
Other Exp	910	496	83.6	622	46.2	2,313	1,903	21.6
<b>EBITDA</b>	<b>1,468</b>	<b>576</b>	<b>154.7</b>	<b>1,029</b>	<b>42.6</b>	<b>3,616</b>	<b>2,288</b>	<b>58.1</b>
<i>EBITDA margin (%)</i>	19.3	13.4		18.8		14.0	17.5	
Depreciation	151	144	(39.5)	151	41.2	594	520	(37.7)
<b>EBIT</b>	<b>1,317</b>	<b>432</b>	<b>204.6</b>	<b>879</b>	<b>49.9</b>	<b>3,022</b>	<b>1,768</b>	<b>70.9</b>
Other Income	45	52	(13.1)	46	(2.9)	176	69	153.5
Interest Cost	50	82	(39.5)	35	41.2	207	332	(37.7)
<b>PBT - Reported</b>	<b>1,312</b>	<b>402</b>	<b>226.4</b>	<b>890</b>	<b>47.5</b>	<b>2,991</b>	<b>1,506</b>	<b>98.7</b>
Tax	340	119	185.2	222	53.3	773	381	103.1
<i>Tax rate (%)</i>	25.9	29.7		24.9		25.3	25.8	
<b>RPAT</b>	<b>972</b>	<b>283</b>	<b>243.8</b>	<b>668</b>	<b>45.6</b>	<b>2,218</b>	<b>1,125</b>	<b>97.2</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
<b>APAT</b>	<b>972</b>	<b>283</b>	<b>243.8</b>	<b>668</b>	<b>45.6</b>	<b>2,218</b>	<b>1,125</b>	<b>97.2</b>
<i>Adj PAT margin (%)</i>	12.8	6.6		12.2		6.9	10.7	

Source: Company, HSIE Research

### FY21 segmental performance

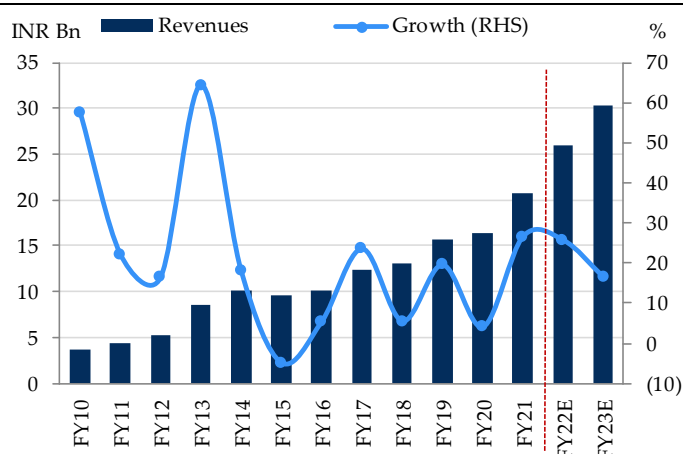
	Mar-21	Mar-20	YoY %	Dec-20	QoQ %	FY21	FY20	YoY %
Sales Volume (KT)	63.6	51.8	22.7	56.0	13.4	52.8	51.9	1.7
NSR (INR/Kg)	183	130	40.7	150	22.2	150	123	21.7
Opex (INR/Kg)	148	113	31.1	122	21.5	124	106	16.8
EBITDA (INR/Kg)	35	17	102.7	28	25.7	26	17	51.9

Source: Company, HSIE Research

## Financial summary

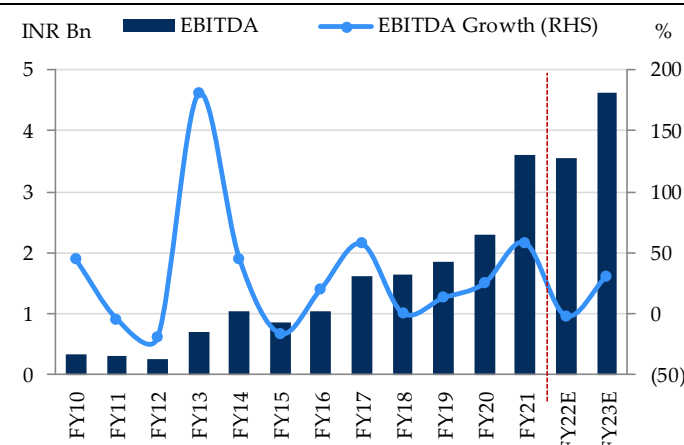
During FY21-23E, we estimate Prince's revenue would grow at 21% CAGR, as we expect volume to grow at an accelerated 21% CAGR (on a muted FY21 base), driven by robust demand and ramp-up at Telangana and Jaipur plants. On a high pricing base of FY21, we model in flattish NSR during FY21-23E. We model in reversal of inventory gains in FY22E, thereby impacting gross and EBITDA margins. Thus, we expect EBITDA to grow at 13% CAGR on the high base of FY21.

### Revenue trend



Source: Company, HSIE Research

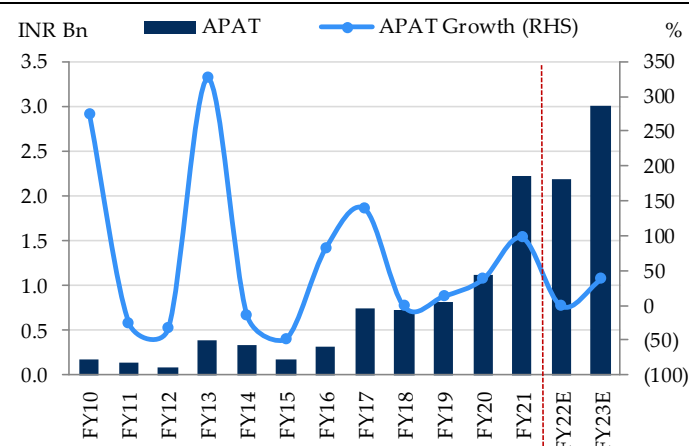
### EBITDA trend



Source: Company, HSIE Research

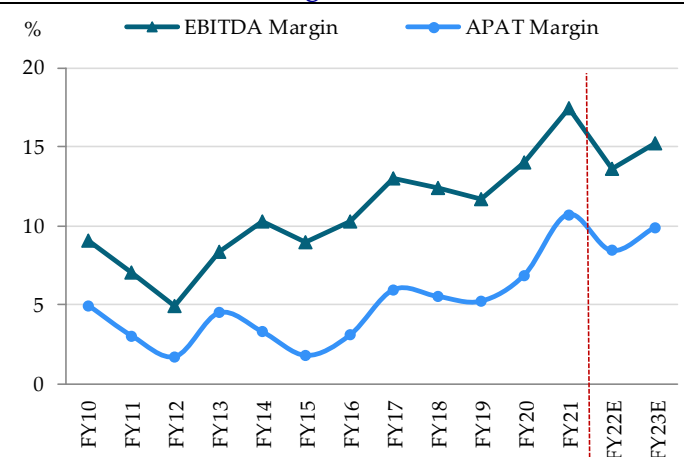
We estimate EBITDA margin to cool off from the peak of 17.5% in FY21 to 14-15% during FY22-23E. Higher utilisation and subsequent enhanced operating leverage should moderate the impact of inventory gains reversal on margin. Increased other income and lower interest cost should accelerate APAT CAGR to 17% during FY21-23E.

### APAT trend



Source: Company, HSIE Research

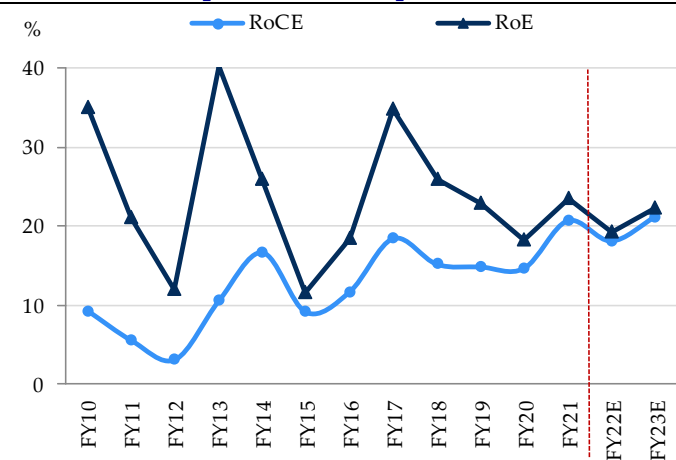
### EBITDA and APAT margin trends



Source: Company, HSIE Research

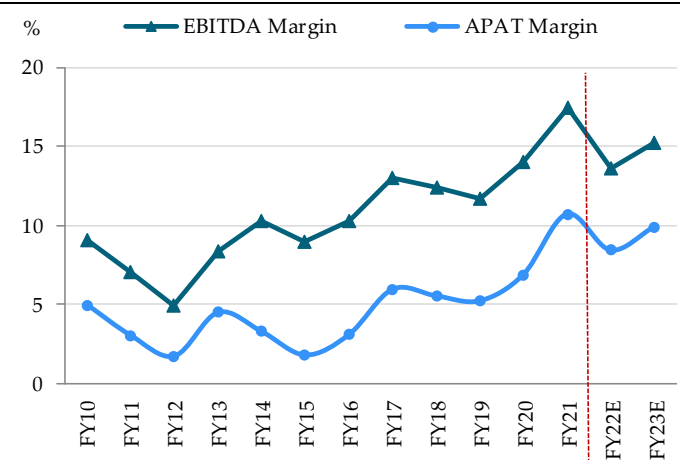
High utilisation (asset turn) and healthy profit margin should keep return ratios buoyant. We expect Prince's robust operating cash flows to fund its incremental Capex, leading to steady free cash flow generation.

## Return ratios expected to firm up



Source: Company, HSIE Research

## OCF/FCF trend



Source: Company, HSIE Research



# Financials

## Income Statement

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>10,090</b>	<b>12,465</b>	<b>13,150</b>	<b>15,718</b>	<b>16,357</b>	<b>20,715</b>	<b>26,031</b>	<b>30,300</b>
<i>Growth %</i>	<i>5.4</i>	<i>23.5</i>	<i>5.5</i>	<i>19.5</i>	<i>4.1</i>	<i>26.6</i>	<i>25.7</i>	<i>16.4</i>
Raw Material	7,448	8,891	9,214	11,274	11,264	13,789	18,684	21,300
Power & Fuel	301	339	343	387	451	542	661	809
Freight Expense	66	101	136	232	232	278	349	427
Employee cost	511	577	684	776	902	997	1,047	1,099
Other Expenses	729	931	1,140	1,209	1,220	1,494	1,733	2,012
<b>EBITDA</b>	<b>1,034</b>	<b>1,626</b>	<b>1,633</b>	<b>1,840</b>	<b>2,288</b>	<b>3,616</b>	<b>3,556</b>	<b>4,652</b>
<i>EBITDA Margin (%)</i>	<i>10.2</i>	<i>13.0</i>	<i>12.4</i>	<i>11.7</i>	<i>14.0</i>	<i>17.5</i>	<i>13.7</i>	<i>15.4</i>
<i>EBITDA Growth %</i>	<i>19.9</i>	<i>57.3</i>	<i>0.4</i>	<i>12.6</i>	<i>24.3</i>	<i>58.1</i>	<i>(1.7)</i>	<i>30.8</i>
Depreciation	285	328	381	436	520	594	681	798
<b>EBIT</b>	<b>749</b>	<b>1,298</b>	<b>1,252</b>	<b>1,404</b>	<b>1,768</b>	<b>3,022</b>	<b>2,875</b>	<b>3,853</b>
Other Income	11	25	60	71	69	176	200	300
Interest	353	364	361	363	332	207	101	75
PBT	407	959	952	1,112	1,506	2,991	2,973	4,078
Tax	96	217	224	292	381	773	773	1,060
<b>RPAT</b>	<b>311</b>	<b>742</b>	<b>728</b>	<b>821</b>	<b>1,125</b>	<b>2,218</b>	<b>2,200</b>	<b>3,018</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
<b>APAT</b>	<b>311</b>	<b>742</b>	<b>728</b>	<b>821</b>	<b>1,125</b>	<b>2,218</b>	<b>2,200</b>	<b>3,018</b>
<i>APAT Growth (%)</i>	<i>81.3</i>	<i>138.4</i>	<i>(1.9)</i>	<i>12.8</i>	<i>37.1</i>	<i>97.2</i>	<i>(0.8)</i>	<i>37.2</i>
AEPS	6.5	16.5	8.1	9.1	10.2	20.2	20.0	27.4
<i>AEPS Growth %</i>	<i>81.3</i>	<i>154.3</i>	<i>(51.0)</i>	<i>12.8</i>	<i>12.2</i>	<i>97.2</i>	<i>(0.8)</i>	<i>37.2</i>

Source: Company, HSIE Research

## Balance Sheet

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>SOURCES OF FUNDS</b>								
Share Capital	480	450	907	917	1,123	1,123	1,123	1,123
Reserves And Surplus	1,362	1,975	2,258	3,091	7,254	9,312	11,127	13,650
<b>Total Equity</b>	<b>1,842</b>	<b>2,425</b>	<b>3,166</b>	<b>4,008</b>	<b>8,377</b>	<b>10,435</b>	<b>12,250</b>	<b>14,773</b>
Long-term Debt	1,124	1,332	2,008	1,556	588	13	13	13
Short-term Debt	1,869	1,897	1,716	1,473	2,054	867	867	415
<b>Total Debt</b>	<b>2,993</b>	<b>3,229</b>	<b>3,724</b>	<b>3,030</b>	<b>2,642</b>	<b>880</b>	<b>880</b>	<b>428</b>
Deferred Tax Liability	109	117	127	135	133	133	133	133
Long-term Liab+ Provisions	183	200	236	238	167	163	165	166
<b>TOTAL SOURCES OF FUNDS</b>	<b>5,127</b>	<b>5,971</b>	<b>7,253</b>	<b>7,411</b>	<b>11,318</b>	<b>11,611</b>	<b>13,428</b>	<b>15,500</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	2,375	2,685	3,447	3,696	4,886	5,030	5,098	6,150
Capital WIP	141	180	147	615	75	765	1,365	965
Other Non-current Assets	79	66	766	743	687	394	394	394
Total Non-current Investments	5	7	7	8	6	15	15	15
<b>Total Non-current Assets</b>	<b>2,601</b>	<b>2,939</b>	<b>4,366</b>	<b>5,062</b>	<b>5,655</b>	<b>6,204</b>	<b>6,872</b>	<b>7,524</b>
Inventories	1,005	1,742	2,415	2,011	3,445	2,273	3,384	3,787
Debtors	2,390	2,367	2,394	2,504	1,797	3,534	3,254	3,333
Cash and Cash Equivalents	96	124	96	223	2,571	2,299	3,972	5,380
Other Current Assets (& Loans/adv)	441	433	527	605	635	1,751	673	673
<b>Total Current Assets</b>	<b>3,932</b>	<b>4,666</b>	<b>5,432</b>	<b>5,342</b>	<b>8,448</b>	<b>9,857</b>	<b>11,282</b>	<b>13,173</b>
Creditors	991	1,021	1,970	2,152	1,808	2,491	2,863	3,333
Other Current Liabilities & Provns	414	612	576	841	976	1,959	1,863	1,863
<b>Total Current Liabilities</b>	<b>1,406</b>	<b>1,634</b>	<b>2,546</b>	<b>2,993</b>	<b>2,784</b>	<b>4,450</b>	<b>4,726</b>	<b>5,196</b>
<b>Net Current Assets</b>	<b>2,526</b>	<b>3,033</b>	<b>2,887</b>	<b>2,349</b>	<b>5,664</b>	<b>5,407</b>	<b>6,556</b>	<b>7,977</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>5,127</b>	<b>5,971</b>	<b>7,253</b>	<b>7,411</b>	<b>11,318</b>	<b>11,611</b>	<b>13,428</b>	<b>15,500</b>

Source: Company, HSIE Research

## Cash Flow

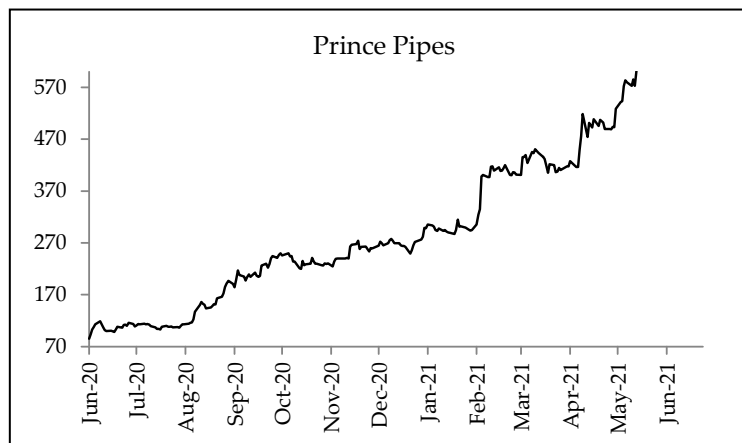
YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	407	959	952	1,113	1,506	2,991	2,973	4,078
Non-operating & EO Items	348	371	415	332	450	261	-	-
Interest Expenses	-	-	-	-	-	-	101	75
Depreciation	285	328	381	436	520	594	681	798
Working Capital Change	(86)	(471)	37	611	(1,081)	(149)	526	(11)
Tax Paid	(75)	(219)	(163)	(305)	(372)	(626)	(773)	(1,060)
<b>OPERATING CASH FLOW ( a )</b>	<b>879</b>	<b>968</b>	<b>1,622</b>	<b>2,186</b>	<b>1,023</b>	<b>3,071</b>	<b>3,509</b>	<b>3,880</b>
Capex	(497)	(693)	(1,703)	(1,051)	(1,106)	(1,211)	(1,350)	(1,450)
Free Cash Flow (FCF)	383	276	(81)	1,136	(83)	1,860	2,159	2,430
Investments	(12)	14	1	-	(2,571)	355	-	-
Non-operating Income	0	0	0	0	0	0	-	-
Others								
<b>INVESTING CASH FLOW ( b )</b>	<b>(508)</b>	<b>(679)</b>	<b>(1,703)</b>	<b>(1,051)</b>	<b>(3,677)</b>	<b>(856)</b>	<b>(1,350)</b>	<b>(1,450)</b>
Debt Issuance/(Repaid)	(21)	107	425	(689)	(388)	(1,761)	-	(452)
Interest Expenses	(29)	(37)	(38)	(360)	(330)	(199)	(101)	(75)
FCFE	333	345	306	87	(802)	(100)	2,058	1,903
Share Capital Issuance	(299)	(315)	(314)	-	3,394	(6)	-	-
Dividend	(16)	(17)	(18)	-	(110)	(165)	(385)	(495)
Others	-	-	-	-	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(365)</b>	<b>(263)</b>	<b>55</b>	<b>(1,049)</b>	<b>2,566</b>	<b>(2,131)</b>	<b>(486)</b>	<b>(1,023)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>6</b>	<b>27</b>	<b>(25)</b>	<b>87</b>	<b>(88)</b>	<b>84</b>	<b>1,673</b>	<b>1,408</b>
EO Items, Others								
<b>Closing Cash &amp; Equivalents</b>	<b>67</b>	<b>122</b>	<b>99</b>	<b>183</b>	<b>135</b>	<b>2,654</b>	<b>3,972</b>	<b>5,380</b>

## Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>PROFITABILITY %</b>								
EBITDA Margin	10.2	13.0	12.4	11.7	14.0	17.5	13.7	15.4
EBIT Margin	7.4	10.4	9.5	8.9	10.8	14.6	11.0	12.7
APAT Margin	3.1	6.0	5.5	5.2	6.9	10.7	8.5	10.0
RoE	18.4	34.8	26.0	22.9	18.2	23.6	19.4	22.3
RoIC	11.7	18.5	14.7	14.4	16.6	24.8	22.7	29.1
RoCE	11.7	18.4	15.2	14.8	14.7	20.7	18.2	21.2
<b>EFFICIENCY</b>								
Tax Rate %	23.5	22.7	23.5	26.2	25.3	25.8	26.0	26.0
Fixed Asset Turnover (x)	3.4	4.6	3.7	3.5	2.9	3.0	3.4	3.4
Inventory (days)	36	51	67	47	77	40	47	46
Debtors (days)	86	69	66	58	40	62	46	40
Other Current Assets (days)	19	15	36	31	30	38	15	13
Payables (days)	36	30	55	50	40	44	40	40
Other Current Liab & Provns (days)	22	24	23	25	26	37	28	24
Cash Conversion Cycle (days)	84	81	92	61	81	59	39	34
Net Debt/EBITDA (x)	2.8	1.9	2.2	1.5	0.0	(0.4)	(0.9)	(1.1)
Net D/E	1.6	1.3	1.1	0.7	0.0	(0.1)	(0.3)	(0.3)
Interest Coverage	2.1	3.6	3.5	3.9	5.3	14.6	28.4	51.2
<b>PER SHARE DATA (INR)</b>								
EPS	6.5	16.5	8.1	9.1	10.2	20.2	20.0	27.4
CEPS	12.4	23.8	12.3	14.0	14.9	25.6	26.2	34.7
Dividend	-	-	-	-	1.0	3.5	3.5	4.5
Book Value	38.4	53.9	35.2	44.5	76.1	94.8	111.3	134.3
<b>VALUATION</b>								
P/E (x)	245.7	103.1	105.1	93.2	68.0	34.5	34.8	25.3
P/Cash EPS (x)	128.2	71.5	69.0	60.9	46.5	27.2	26.5	20.0
P/BV (x)	41.5	31.5	24.2	19.1	9.1	7.3	6.2	5.2
EV/EBITDA (x)	76.7	48.9	49.0	43.1	33.5	20.8	20.6	15.4
Dividend Yield (%)	-	-	-	-	0.1	0.5	0.5	0.6
OCF/EV (%)	1.1	1.2	2.0	2.8	1.3	4.1	4.8	5.4
FCFF/EV (%)	0.5	0.3	(0.1)	1.4	(0.1)	2.5	2.9	3.4
FCFE/M Cap (%)	0.4	0.5	0.4	0.1	(1.0)	(0.1)	2.7	3.2

Source: Company, HSIE Research

## 1 Yr Price Movement



### Rating Criteria

**BUY:** >+15% return potential  
**ADD:** +5% to +15% return potential  
**REDUCE:** -10% to +5% return potential  
**SELL:** >10% Downside return potential

## Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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## HDFC securities

### Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)