

# Prince Pipes & Fittings Ltd

**BUY**

**CMP Rs665**

**Target Rs817**

**Upside 23%**

**Assume coverage with a "BUY" rating!**

## 6 REASONS TO BUY THE STOCK

**1**

### Healthy Industry growth:

Plastic pipe industry is largely driven by irrigation (50% demand) followed by Plumbing & WSS (35%) demand. On the back of Govt's initiatives like (i) Jal Jeevan Mission which is likely to witness sharp increase in budgetary spends, (ii) Higher spends for urban development, (iii) Swachh Bharat mission (Capital outlay of 1.2Lakh Cr over 2021-2026) coupled with higher agri spends should enable the Plastic Pipe industry to grow by 13% over FY20-FY24E.

**2**

### Prince Pipes & Fittings (PP&F) is one of the leading plastic pipes manufacturer in India.

PP&F possesses 6% market share of an overall industry. The company offers wide range of products used in plumbing solutions, sewage & underground drainage works, irrigation solutions and storage solutions. With 7-strategically located plants across India, PP&F has a total 259,000 TPA installed capacity. Hence, we believe, PP&F to be one of the key beneficiaries of expected industry growth.

**3**

### PP&F to outperform Industry growth:

We reckon, with company's strong brand image & strategic tie-ups company is likely to expand their market-share. Moreover, industry is witnessing a meaningful transition from unorganized to organized segment which will further enable the company to outperform industry growth by registering 15% CAGR in volumes over FY21-FY24E.

**4**

### Better Product portfolio:

PP&F has built their product portfolio towards margin lucrative products. With their tie-up with Lubrizol (world's largest CPVC compound manufacturer), company is well poised to increase their CPVC revenue in coming years. Owing to which company is likely to report 15%/15.5% EBITDA margins in FY23E/FY34E respectively.

**5**

### Strong Balance sheet:

PP&F has strengthened their balance sheet by reducing total debt from Rs2.75Bn in FY16 to Rs0.8Bn in FY21. As on date, company is Longterm debt free, and we believe total debt to further reduce to Rs0.35Bn in FY24E. Therefore, NetDebt/Equity is also expected to improve from -0.1x in FY21 to -0.3x in FY24E. With no major capex in coming years, we reckon PP&F to generate healthy FCF of Rs 3.8Bn in FY24E.

**6**

### Valuations:

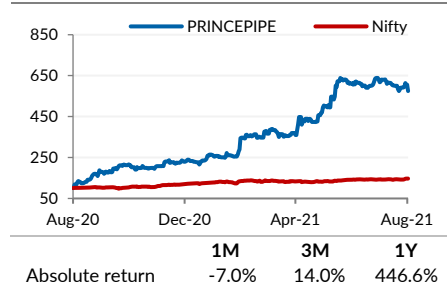
On account of reasons stated above, we believe company is set to witness strong traction in coming years. Hence, we expect PP&F to report Revenue/EBITDA/PAT growth of 12%/8%/11% over FY21-FY24E.

AT CMP, PP&F is trading at 24.4x on its FY24E EPS of Rs27. We have valued the company at 30x on its FY24E EPS arriving at a target price of Rs817/share, implying an upside of 23%. Therefore, we assume coverage on the company with a "BUY" rating.

### Stock data (as on Aug 06, 2021)

Nifty	16,238
52 Week h/l (Rs)	794 / 120
Market cap (Rs/USD mn)	73189 / 987
Outstanding Shares (mn)	110
6m Avg t/o (Rs mn):	290
Div yield (%)	0.3
Bloomberg code	PRNCPI IN
NSE code	PRNCPIPE

### Stock performance



### Shareholding pattern (As of Dec'20 end)

Promoter	63.25%
FII+DII	15.51%
Others	21.24%

### Financial Summary

(Rs mn)	FY22E	FY23E	FY24E
Revenues	21,229	25,559	29,376
Yoy growth (%)	2.5	20.4	14.9
OPM (%)	12.8	15.0	15.5
EPS (Rs)	15.0	22.7	27.2
EPS growth	(25.5)	50.8	20.3
P/E (x)	44.3	29.4	24.4
EV/EBITDA (x)	26.5	18.6	15.0
Debt/Equity (x)	0.1	0.0	0.0
RoE (%)	13.7	17.1	17.1
RoCE (%)	18.2	22.4	22.4

**UDIT GAJIWALA**  
 Analyst

udit.gajiwala@ysil.in  
 +91 90826 82124



**AMAR AMBANI,**  
 Sr. President, & Head of Institutional Equities

amar.ambani@ysil.in

## RESULT HIGHLIGHTS

- ✓ Q1FY22 was severely impacted due to 2<sup>nd</sup> wave of COVID-19 and muted agri demand. This led to volume decline of 55.7% q/q & 25.5% y/y.
- ✓ However higher selling price resulted into 9.3%y/y growth in revenues. As compared to Q4FY21, revenues were down by 55.7%.
- ✓ Company's GP margins were impacted on account of high cost inventory (Rs1.03Bn) which stood at 29.8% Vs 34.8% in previous quarter. Consequently, operational margins contracted from 19.3% in Q4FY19 to 12.5% in Q1FY22.
- ✓ PP&F's Q1FY22 net profit stood at Rs177 Mn as compared to Rs112 Mn in Q1FY21 & Rs972 Mn in previous quarter.

### Exhibit 1: Result table

Rs Mn	Q1FY22	Q1FY21	yoy%	Q4FY21	qoq%
Volumes (Te)	18,466	24,792	(25.5)	41,644	(55.7)
Sales	3,306	3,025	9.3	7,614	(56.6)
COGS	2,321	2,196	5.7	4,961	(53.2)
GP	985	829	18.9	2,653	(62.9)
GP%	29.8	27.4	239.8	34.8	(504.8)
Employee cost	214	222	(3.4)	275	(22.1)
Other cost	358	291	23.2	910	(60.6)
EBITDA	413	316	30.5	1,468	(71.9)
EBITDA%	12.5	10.5	202.8	19.3	(680.2)
Depreciation	159	140	13.7	151	5.5
Finance cost	27	68	(60.3)	50	(45.5)
Other Income	22	52	(57.8)	45	(51.0)
EBT	248	160	55.2	1,312	(81.1)
Tax	71	47	49.1	340	(79.2)
PAT	178	113	57.8	972	(81.7)
PAT%	5.4	3.7	165.2	12.8	(739.8)
EPS	1.6	1.0	57.8	8.8	(81.8)

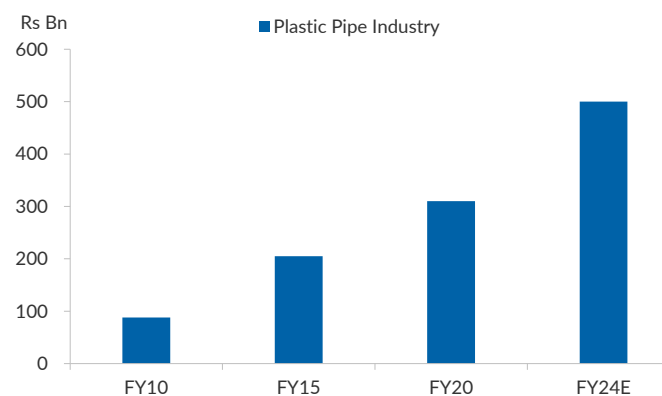
Source: Company, YES Sec

## CON-CALL HIGHLIGHTS

- ✓ Management stated that Q1 performance was largely impacted due to muted agri demand. However, demand has started to bounce back & they are witnessing m/m improvement in performance.
- ✓ During the quarter company launched Prince OneFit (CPVC) pipes which is licensed from Corzan, CPVC technology of Lubrizol. This pipe will find application in industrial usage viz: Chemicals, Power, Metal treatment, Mineral processing and water treatment plants. Company believes that potential market for these pipes is ~Rs160Bn in India.
- ✓ During Q1FY22, 65% revenue came from Building material segment, followed by Agri & Infra which formed ~30% & 5% respectively.
- ✓ In terms of polymer mix PVC / CPVC constituted ~65%/20% of revenue respectively.
- ✓ Company reduced their Gross debt from Rs2.56 Bn in June'20 to Rs1.57 Bn in June'21. As on date PP&F has become a Long term debt free company.
- ✓ PP&F has aligned with Ultratech Business solutions, which will enable PP&F to capitalize on Ultratech's 2,000 dealers and strengthen their brand presence in tier-2&3 cities.
- ✓ Management believes their CPVC segment to grow by 20% annually which will expand overall margins as well.
- ✓ Company will continue to spend ~2-3% of their revenue on advertisement spends.

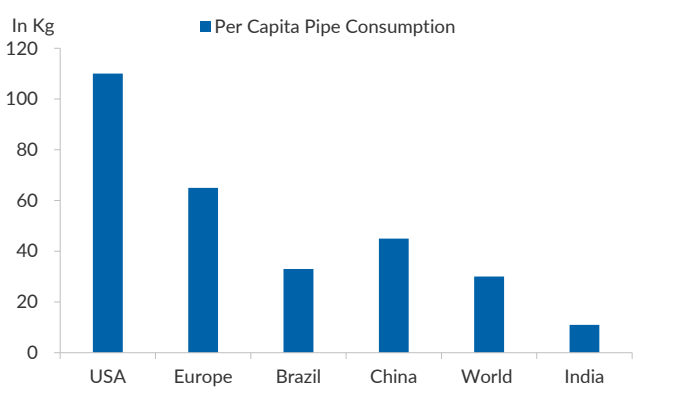
## CHARTS

**Exhibit 2: Industry is expected to grow by 13% CAGR over FY20-24E...**



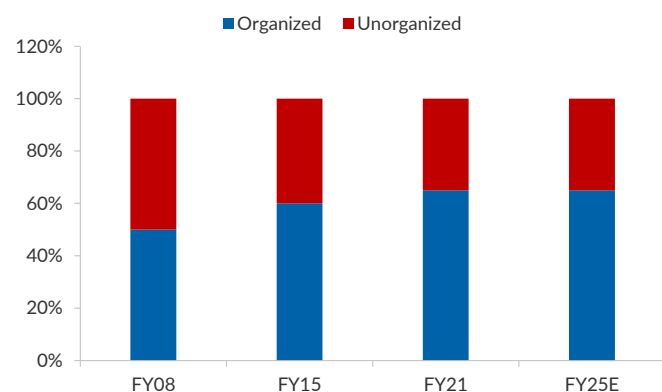
Source: Company, YES Sec

**Exhibit 3: India's per capita pipe consumptions is mere 11kg...**



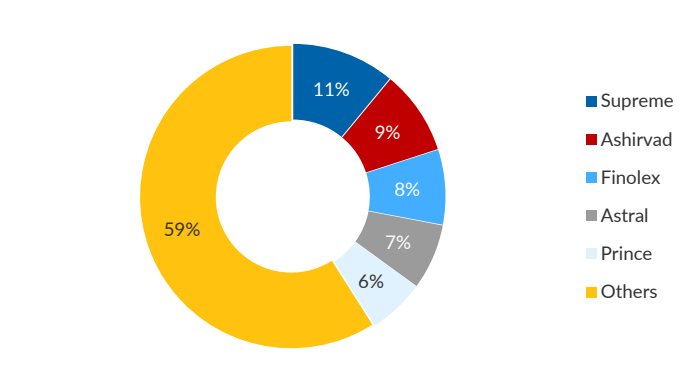
Source: Company, YES Sec

**Exhibit 4: Share of organized players is likely to expand...**



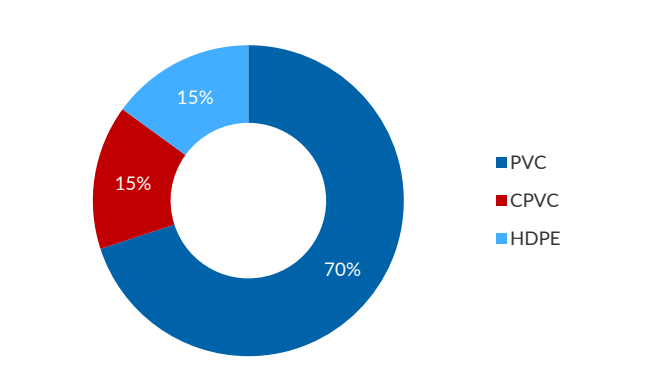
Source: Company, YES Sec

**Exhibit 5: Top-5 players account for ~41% of industry...**



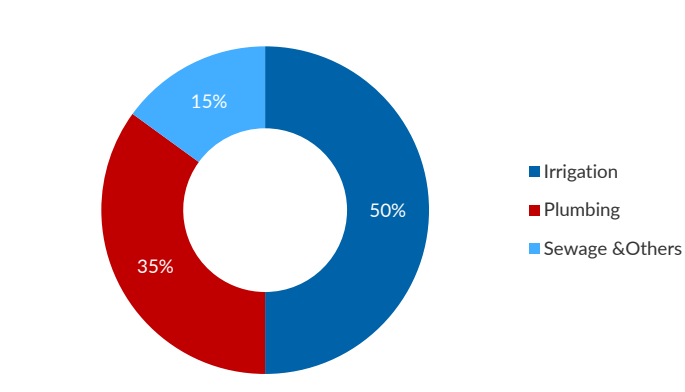
Source: Company, YES Sec

**Exhibit 6: PVC constitutes major share of industry...**



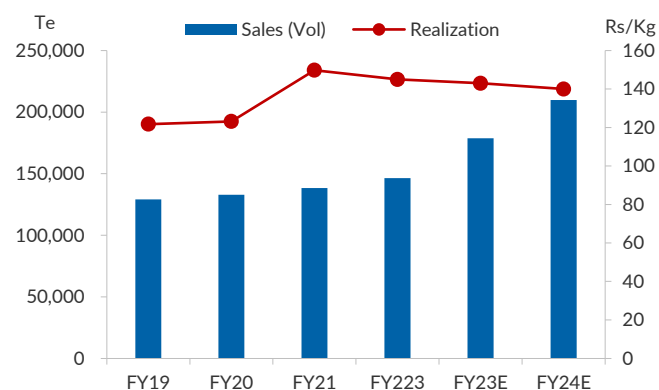
Source: Company, YES Sec

**Exhibit 7: Demand is largely driven by irrigation...**



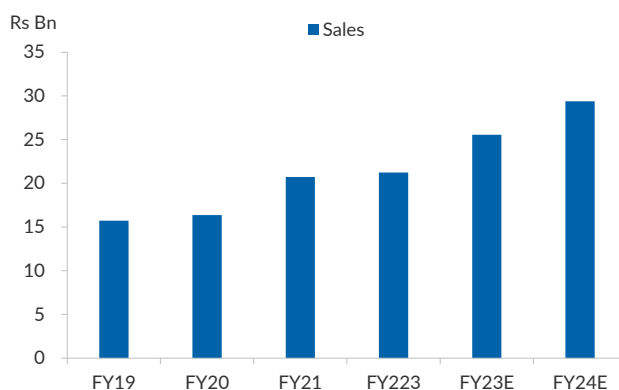
Source: Company, YES Sec

**Exhibit 8: PP&Fs volumes are likely to grow by 15% over FY21-FY24E**



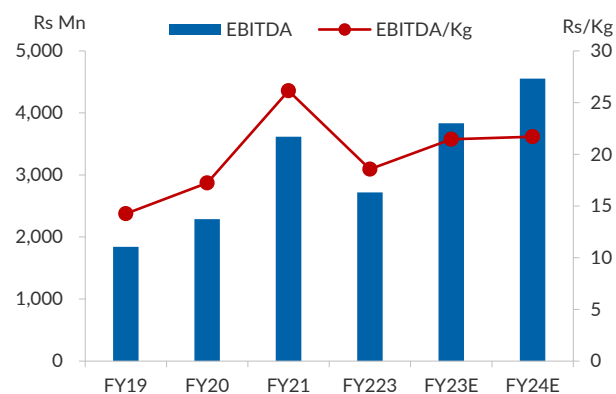
Source: Company, YES Sec

**Exhibit 9: ...with prices likely to contract, revenues are expected to report 12% CAGR**



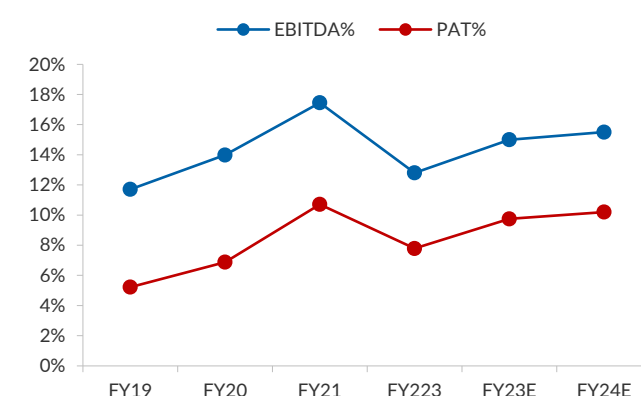
Source: Company, YES Sec

**Exhibit 10: EBITDA should increase by 8% over FY21-FY24E...**



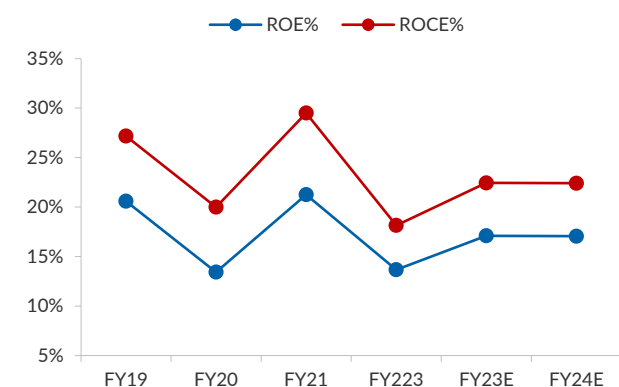
Source: Company, YES Sec

**Exhibit 11: Operating margins are likely to come in at 15%/15.5% in FY23E/FY24E respectively...**



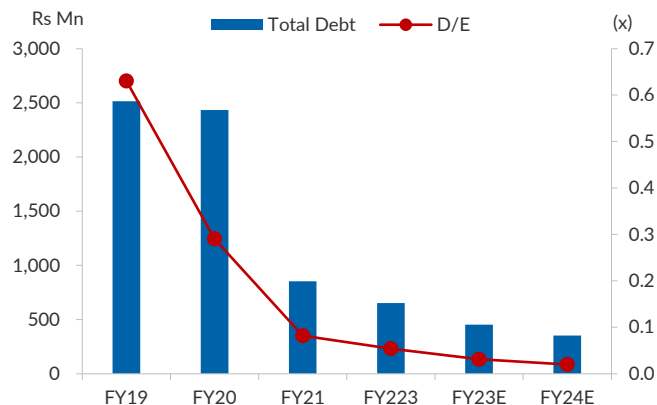
Source: Company, YES Sec

**Exhibit 12: Return ratios are likely to stabilize...**



Source: Company, YES Sec

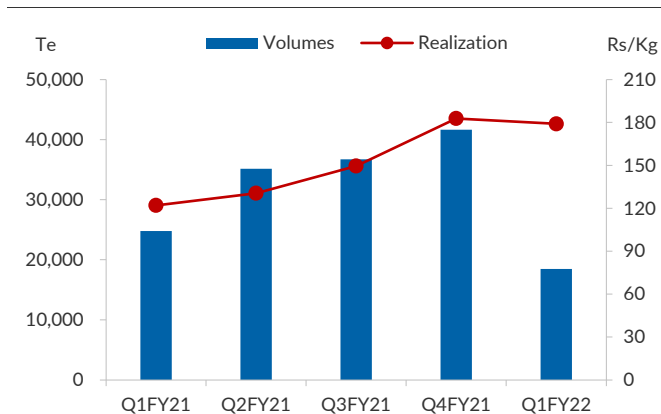
**Exhibit 13: Balance sheet to strengthen further...**



Source: Company, YES Sec

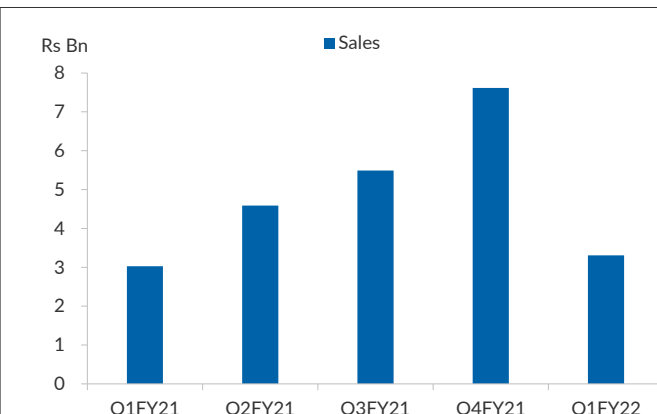
## QUARTERLY PERFORMANCE

**Exhibit 14: Vols declined by 56% y/y in Q1FY22...**



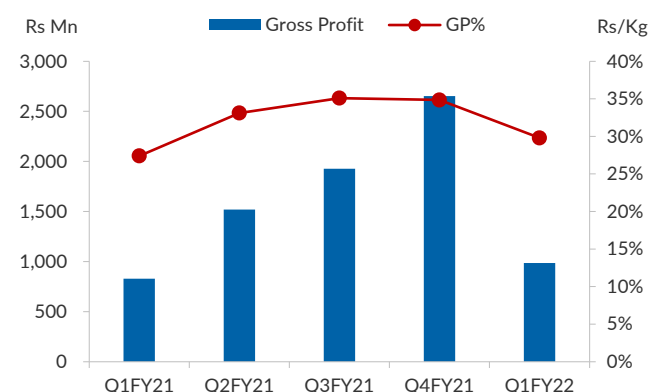
Source: Company, YES Sec

**Exhibit 15: ... wherein revenue grew by 9% y/y**



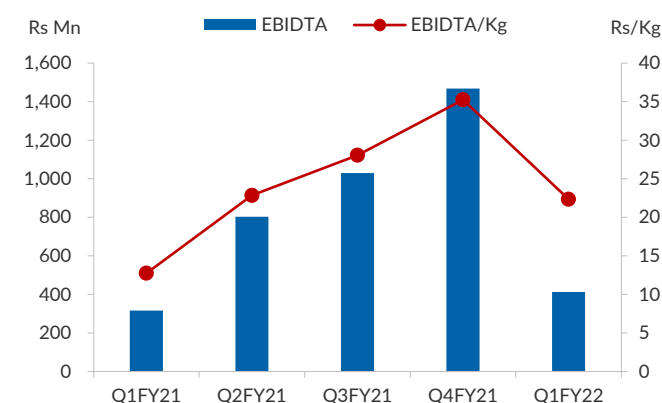
Source: Company, YES Sec

**Exhibit 16: GP% contracted sequentially due to high cost inventory...**



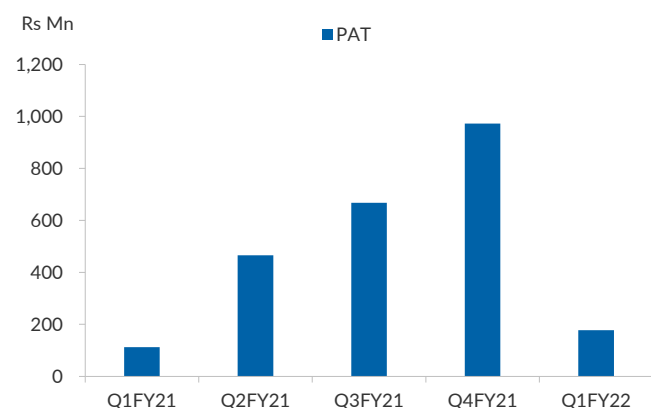
Source: Company, YES Sec

**Exhibit 17: Hence EBITDA% came in at 12.5% in Q1FY22...**



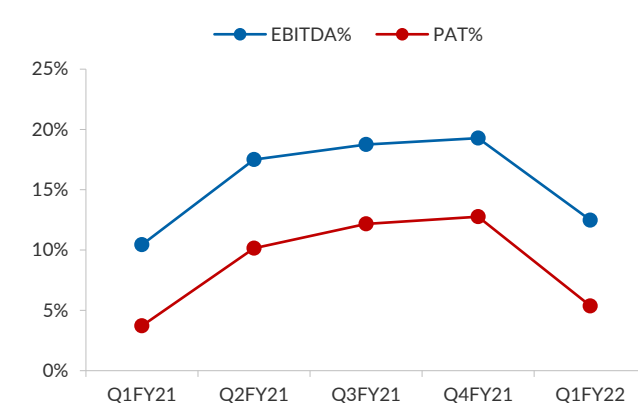
Source: Company, YES Sec

**Exhibit 18: Profit declined by 82% q/q**



Source: Company, YES Sec

**Exhibit 19: PAT margins came in at 5.4% in Q1FY22...**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 20: Balance sheet**

Balance Sheet (Rs Mn)	FY21	FY22E	FY23E	FY24E
Share Capital	1,100	1,100	1,100	1,100
Reserves	9,335	10,987	13,479	16,477
Non-current liab	408	409	435	461
Current Liab	5,218	3,766	3,518	4,845
Borrowings	852	652	452	352
Payables	2,491	1,876	2,159	2,463
Other current Liab	1,842	1,206	875	1,998
<b>Total Equity &amp; Liab</b>	<b>16,061</b>	<b>16,263</b>	<b>18,533</b>	<b>22,922</b>
Gross Block	7,062	8,262	9,012	10,062
Acc Dep	2,114	2,775	3,496	4,301
Net Block	4,949	5,488	5,517	5,762
CWIP	765	661	1,081	1,207
Other Noncurrent assets	408	418	504	579
<b>Current Assets</b>				
Inventory	2,273	3,111	3,598	4,105
Receivables	3,534	2,947	3,851	4,427
Cash & Bank	2,299	1,805	2,149	5,011
Loans	41	41	41	41
<b>Total Assets</b>	<b>16,061</b>	<b>16,263</b>	<b>18,533</b>	<b>22,922</b>

**Exhibit 21: Income statement**

Income Statement	FY21	FY22E	FY23E	FY24E
Sales	20,715	21,229	25,559	29,376
COGS	13,789	15,072	17,508	19,976
GP	6,927	6,156	8,051	9,400
GP%	33.4	29.0	31.5	32.0
Employee	997	1,061	1,278	1,469
Other cost	2,313	2,378	2,939	3,378
<b>EBITDA</b>	<b>3,616</b>	<b>2,717</b>	<b>3,834</b>	<b>4,553</b>
<b>EBITDA%</b>	<b>17.5</b>	<b>12.8</b>	<b>15.0</b>	<b>15.5</b>
Finance cost	207	65	45	46
Depreciation	661	721	805	849
Other Income	212	256	294	291
<b>PBT</b>	<b>2,991</b>	<b>2,203</b>	<b>3,323</b>	<b>3,996</b>
Tax	773	551	831	999
<b>PAT</b>	<b>2,218</b>	<b>1,653</b>	<b>2,492</b>	<b>2,997</b>
<b>PAT%</b>	<b>10.7</b>	<b>7.8</b>	<b>9.8</b>	<b>10.2</b>
EPS	20	15	23	27

# Prince Pipes & Fittings Ltd

## Exhibit 22: Cashflow statement

Cash Flow	FY21	FY22E	FY23E	FY24E
Net Profit/ (Loss) Before Tax	2,991	2,203	3,323	3,996
Depreciation	594	661	721	805
Interest paid	176	65	45	46
Inventory	1,172	(838)	(486)	(507)
Receivables	(1,787)	587	(905)	(575)
Other assets	(1,064)	(10)	(85)	(75)
Payables	1,529	(615)	282	304
Cash from Operations	3,697	1,418	2,591	5,142
Tax	(626)	(551)	(831)	(999)
<b>CFO (A)</b>	<b>3,071</b>	<b>867</b>	<b>1,760</b>	<b>4,143</b>
Purchase of Property, Plant and Equipment	(1,459)	(435)	(450)	(371)
CFI(B)	(856)	(435)	(450)	(371)
Proceeds from Borrowings (Net)	(1,746)	(200)	(200)	(100)
Interest paid excluding lease	(169)	(65)	(45)	(46)
CFA (C)	(2,131)	(926)	(966)	(911)
<b>Net Increase/(Decrease) in Cash</b>	<b>84</b>	<b>(494)</b>	<b>344</b>	<b>2,861</b>
Cash at the beginning of the year	1	2,299	1,805	2,149
<b>Cash at the end of the year</b>	<b>84</b>	<b>1,805</b>	<b>2,149</b>	<b>5,011</b>

## Exhibit 23: Ratio analysis

Ratios	FY21	FY22E	FY23E	FY24E
<b>Growth (%)</b>				
Total Sales	26.6	2.5	20.4	14.9
EBIDTA	58.1	(24.9)	41.1	18.8
EBIT	74.1	(29.1)	48.5	20.0
PAT	97.2	(25.5)	50.8	20.3
<b>Profitability (%)</b>				
GP Margins	33.4	29.0	31.5	32.0
EBIDTA Margins	17.5	12.8	15.0	15.5
EBIT Margins	15.4	10.7	13.2	13.8
PAT Margins	10.7	7.8	9.8	10.2
<b>Return Ratios (%)</b>				
ROCE	29.5	18.2	22.4	22.4
ROE	21.3	13.7	17.1	17.1
<b>Per Share Data (Rs)</b>				
EPS	20.2	15.0	22.7	27.2
CEPS	25.6	21.0	29.2	34.6
BVPS	94.8	109.9	132.5	159.8
<b>Valuations (x)</b>				
P/E (x)	33.0	44.3	29.4	24.4
P/BV (x)	7.0	6.1	5.0	4.2
EV/EBIDTA	19.8	26.5	18.6	15.0
Marketcap/sales	3.5	3.4	2.9	2.5
<b>Gearing Ratios</b>				
Debt/Equity	0.1	0.1	0.0	0.0
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.3)
Net Debt/EBIDTA	(0.4)	(0.4)	(0.4)	(1.0)
Int Coverage	15.5	34.8	74.5	88.3
A/TO	2.9	2.6	2.8	2.9
WCC Days	76.8	85.0	85.0	85.0



## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Udit Gajiwala

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Email: [research@ysil.in](mailto:research@ysil.in) | Website: [www.yesinvest.in](http://www.yesinvest.in)

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single

Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member

Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |

MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:

INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and

Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI

Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Vaibhav Purohit,

Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.