INDIA RESEARCH

INITIATING COVERAGE

MIDCAPS

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Prince Pipes and Fittings

Getting ready to rule

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Reco	:	BUY
CMP	:	INR718
Target Price	:	INR875
Potential Return	:	22%

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Market data

Sensex	:	58,305
Sector	:	Plastic Piping
Market Cap (INRbn)	:	79.0
Market Cap (USDbn)	:	1.075
O/S Shares (m)	:	110.0
52-wk HI/LO (INR)	:	795/190
Avg Daily Vol ('000)	:	352
Bloomberg	:	PRINCPIP IN

Source: Bloomberg

Valuation

	FY22e	FY23e	FY24e
EPS (INR)	19.8	23.2	29.1
P/E	36.2	30.9	24.7
P/BV	6.5	5.5	4.6
EV/EBITDA	21.5	18.4	14.9
Dividend Yield (%)	0.4	0.4	0.4

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	10	2	62	252
Relative	3	(9)	42	131

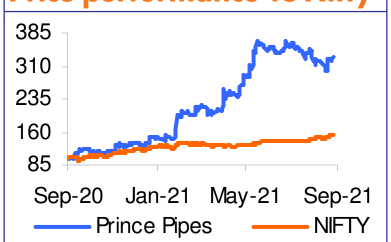
Source: Bloomberg

Shareholding pattern

Promoters	:	63%
Public	:	37%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

INITIATING COVERAGE

Prince Pipes and Fittings

Getting ready to rule; Initiate with BUY

Prince Pipes and Fittings (Prince) is India's 5th largest plastic pipe manufacturer with solid track record of industry leading volume growth. Prince has emerged as a challenger to the industry leaders led by its pan-India manufacturing base, robust distribution network, superior brand recall and diversified product offerings across the categories. We like Prince and believe it as one of the best play on domestic pipes industry on account of its 100% exposure to pipes and fittings unlike other larger pipe players and benefiting from market share (M.S) gains in a consolidating industry. Prince has a consistent track record of revenue/net profit CAGR of 14%/32% over FY17-21 with improving operating margins and robust return ratios. With majority of near term capex to complete by FY22, we believe Prince's performance should further improve with focus on increasing asset turns, debt repayment and better FCF generation. We factor revenue/EBITDA/net profit CAGR of 15%/11%/13% over FY21-24E. Initiate with BUY with target price of INR875 based on 30x FY24E EPS. Risks to our call are demand slowdown and sharp volatility in prices of PVC resin.

Plastic pipes - Huge market size with ample opportunities for every player

The domestic plastic pipe market of INR300bn grew at 10% CAGR over the last decade and expected to grow at CAGR of 12-14% over FY21-25E. This would be driven by 1) increasing impetus on housing and sanitation by the government 2) higher budgetary allocation for irrigation 3) replacement demand 4) conversion from GI pipes to PVC/CPVC pipes 5) Recovery in real estate sector. The organized players in the industry enjoy share of ~65% (up from 50% in FY11) and are continuously gaining the share from unorganized players led by 1) pan-India presence 2) wider product portfolio 3) superior distribution network 4) presence in fittings category 5) wider applications for end use segments. Further, we believe, organized players are in a sweet spot to gain M.S from unorganized players and Prince would be one of the prime beneficiaries.

Hitting the right notes through continuous product innovation, improving branding and distribution

Prince has accelerated its focus on improving the operational efficiencies through multiple collaborations. The tie-up with Lubrizol, the inventors of CPVC for FlowGuard and Corzan brands would enable volume growth in plumbing/SWR category along with improving the value mix. The technical tie-up with Tooling Holland, the global leader in mould helps in manufacturing products of global standards. We believe, this should help the company in achieving cost efficiencies, competitive advantage and optimize the production processes.

Levers for improvement in operating margins

With focus on premiumization and branding, we expect improvement in product mix resulting from superior pricing power. Faster growth in CPVC and PPR products, increase in contribution from fitting and benefit of operating leverage should aid margin expansion. Prince commissioned capacity of 500MT in 4QFY21 in Telangana and complete commissioning of 51,943MT is expected over FY22-24E. This would further improve contribution from fitting, help in penetrating South market and reduce freight cost. We have factored margin expansion of 100bps to 15.5% over FY24 after adjusting for inventory gains in FY21.

The pipe industry has grown at ~10% CAGR over FY11-21. We expect the growth to accelerate to 12-14% CAGR over FY21-25E

Investment rationale

Pipes: Fastest growing category amongst the building materials

Key segments of building material industry such as paint, sanitaryware & faucet, ceramic, plywood and laminates have it's demand growth linked to the pick-up in real estate. While for the pipes, apart from the real estate demand, a significant contribution to demand arises from the irrigation activities, urban infrastructure and sanitation projects which enable faster growth amongst other building material sectors.

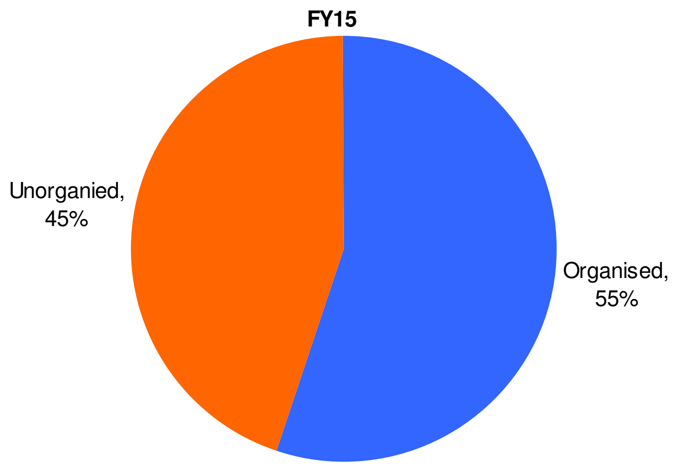
Exhibit 1: Plastic pipe is expected to grow faster vs. others

	Pipes	Paints	Ceramic tiles	Sanitaryware & Faucets	Laminates & Plywood
Industry size (INR bn)	290-300	470	280	S/W: 44; F/W: 80	280-300
Organised	60-65%	70-75%	50%	S/W: 75%; F/W: 50%	Ply:20-25%; Laminates: 40%
FY15-20 revenue CAGR	10-12%	9%	2-3%	S/W: 2-3%; F/W: ~10%	6-8%
FY19-24 revenue CAGR	12-14%	10-12%	7-8%	S/W: ~7%; F/W: ~10%	8-10%

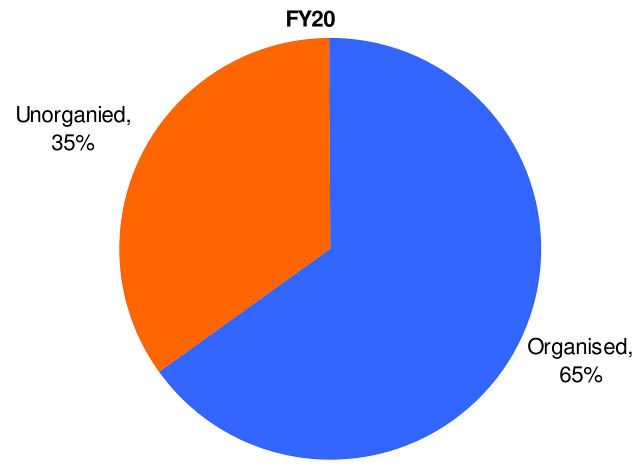
Source: Industry, Antique

The plastic pipes market has size of INR300bn in which the organized players has market share ~65%. ~ 50-55% of the industry demand comes from plumbing pipes which are used in residential/commercial real estate. ~35% of the industry demand comes from agriculture which is dominated by regional unorganised players. The rest 5-10% of the industry demand comes from Infra/industrial projects. The pipe industry has grown at ~10% CAGR over FY11-21.

Exhibit 2: Change in share of organized market

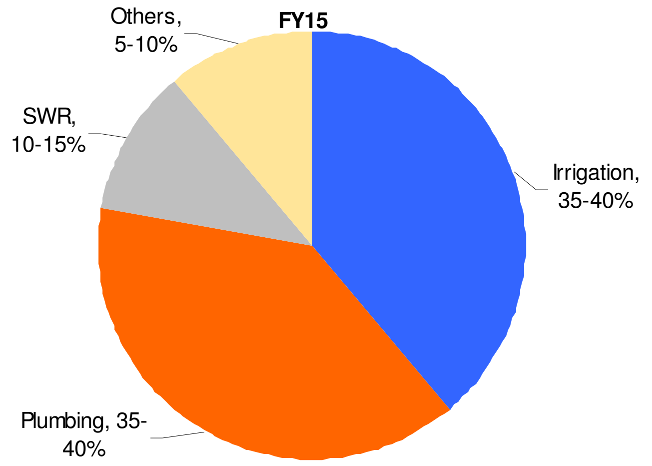


Source: Industry, Antique

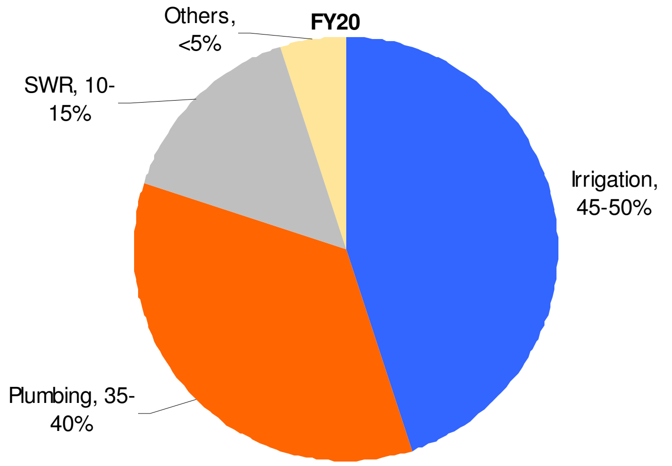


Source: Industry, Antique

Exhibit 3: Change in share of pipe applications



Source: Industry, Antique



Source: Industry, Antique

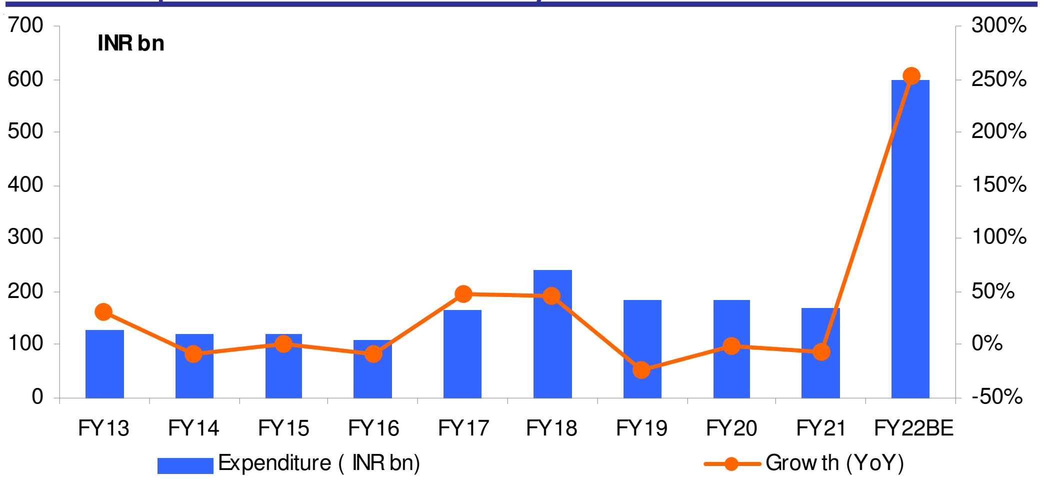
Faster growth in pipe industry to be driven by increase in allocation by government on irrigation, housing and sanitation projects, replacement demand and pick up in real estate recovery

Of India's 142mn hectares of cultivated land, only 50% is irrigated and about 63% of the irrigated land is dependent on tube wells which in turn are monsoon-dependant. This reflects the existing potential for agri pipes opening a window of opportunity for the pipes and fittings industry. With the aim of enhancing the irrigation coverage across India, under the Prime Minister Krishi Sinchai Yojna (PMKSY), the Government of India is planning to spend Rs.50bn over the next five years for setting up a dedicated Micro Irrigation Fund with NABARD. This will provide impetus to micro irrigation in India. The scheme also includes initial schemes such as Accelerated Irrigation Benefits Programme (AIBP), Integrated Watershed Management Programme, Per Drop More Crop and Har Khet Ko Pani.

Launched in 2019, the Jal Jeevan Mission, a flagship programme of the Modi government, aims to provide tap water connections to rural households by 2024. So far, tap water connections have been given to 33mn rural households. In this budget, INR500bn has been earmarked for this scheme. Additionally, The Finance Minister announced the urban segment of this scheme. The ambitious urban segment of the mission will be implemented over five years with an outlay of INR2.87tn.

We expect the growth to accelerate to 12-14% CAGR over FY21-25E led by (1) Govt thrust on housing and sanitation (2) Impetus on irrigation and last mile water connectivity (3) Pick up in Urban housing demand esp in tier2/3/4 cities (4) Rural demand on the back of normal monsoon (5) replacement demand coming from galvanized iron (GI) pipes as PVC pipes are cheaper with higher shelf life (6) Replacement demand. Considering such strong industry tailwinds, we believe pipe companies have ample room to grow over next few years.

Exhibit 4: Significant increase in allocated budget for FY22 for Drinking Water and Sanitation Department under Jal Shakti Ministry



Source: Industry

Exhibit 5: Increasing thrust on housing and sanitation

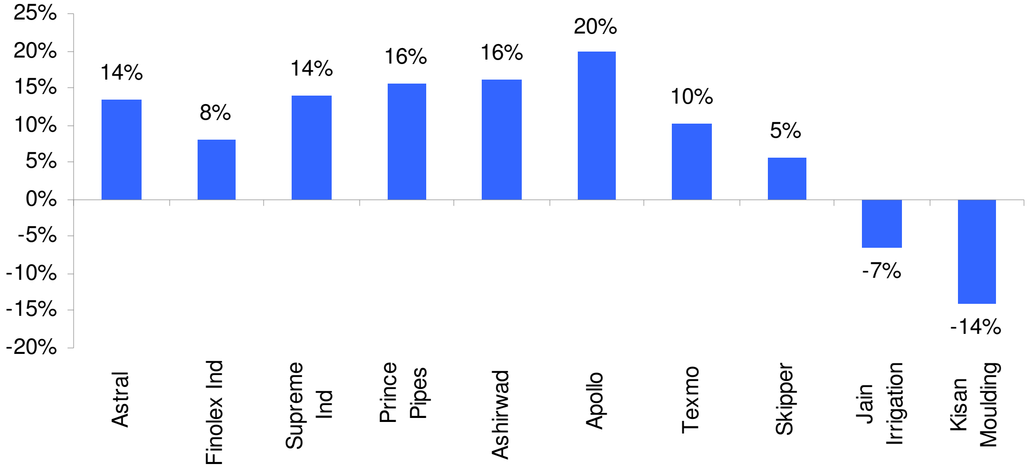
Source: Industry

Prince, one of the key beneficiaries of consolidation in PVC pipes industry

The unorganized players which contribute ~35% of the industry are supposedly reeling post implementation of GST, demonetization over last few years. This was also reflected in much superior growth for the larger organized players vs. the smaller regional players. Some of these regional companies are losing market share on account of diversified businesses, highly leveraged B/S and deteriorating working capital requirements. While on the other hand, larger organized players with net cash B/S are venturing into newer territories rising share of value added products. All these factors are leading to accelerated consolidation in the industry and resulting in higher than industry growth for the organized players.

Smaller regional players facing multiple issues like high debt, increased working capital resulting in consolidation and loss of market share

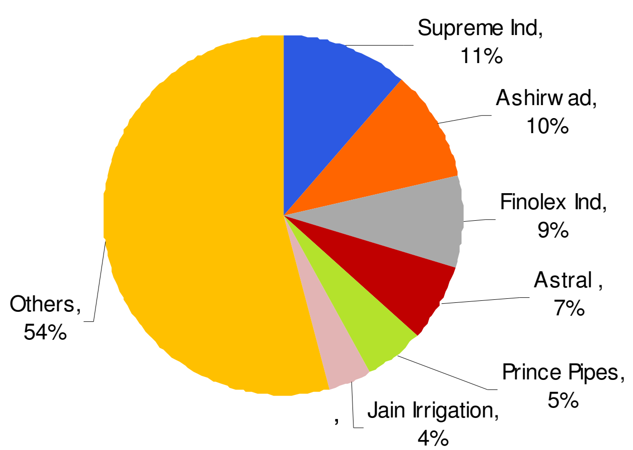
Exhibit 6: Larger organized players growing faster than the industry (Pipes revenue CAGR FY16-21)



Source: Antique, Industry; For Ashirwad, the CAGR calculation is for FY16-20

The shift from unorganized players to organized accentuated in FY21 when the prices of raw materials (65-70% of sales) rose by 80-100% due to global supply shortages and container availability issues. While the organized players displayed better pricing discipline, managed their costs while ensuring adequate supply of PVC resin. We believe, the smaller regional players and the unorganized players will take longer than expected time to re-gain the lost market share once the supply chain stabilizes. Post covid, the larger organized players have emerged as much stronger with robust balance sheet, improved working capital due to their efficient distribution network and geographical expansion.

Exhibit 7: Key pipe players and their market share



Source: Industry, Antique; As on FY20

Increasing geographical reach has been one of the most successful strategies to improve the market share

Transitioning to a household brand through a multi pronged approach

From a pipes manufacturer primarily catering to North/West states, Prince has chartered a roadmap and is on a journey to become a multi-product pan-India building materials franchisee. Further, impetus on leveraging its strong recall, expanding manufacturing base and distribution network will strengthen itself in a consolidating market. Prince has emerged as a strong challenger in pipes to the larger industry leaders with its product innovation track record, strategic tie-ups for technology and aggressive brand campaigning. The strength of the franchisee is visible in its very strong performance over the last decade (revenue/CFO CAGR of 20%/25%) while maintaining a strong balance sheet (0.1x D/E in FY21).

Widening manufacturing reach to gain market share

Increasing geographical reach has been one of the most successful strategies to improve the market share. PVC pipes and fittings are freight intensive products and so it becomes critical to be closer to the market. We understand the cost involved in transporting these products could be 9-10% of the total costs. Hence, it is important to be located near the target market. The pan India manufacturing approach has been proven and adopted by the large peers as well.

Exhibit 8: Manufacturing bases of key pipe companies

Company	No. of plants	North	West	South	East
Prince Pipes	7	Uttarakhand, Rajasthan	Maharashtra, Dadra and Nagar Haveli	Tamil Nadu, Telangana	Bihar^, Odisha^
Supreme Industries	9	Uttar Pradesh	Maharashtra, Madhya Pradesh	Puducherry, Telangana, Tamil Nadu*	West Bengal, Odisha*, Assam*
Finolex Industries	2		Maharashtra, Gujarat		
Astral	6	Rajasthan, Uttarakhand	Gujarat, Maharashtra	Tamil Nadu	Odisha*
Jain Irrigation	4	Rajasthan,	Maharashtra, Gujarat,	Tamil Nadu, Andhra Pradesh	
Ashirvad Pipes	2	Rajasthan		Karnataka	

Source: Antique, Industry; *Under Construction; ^ Contract Manufacturer

Realizing the importance of multiple manufacturing bases, Prince undertook strategy of multi-location manufacturing network spread across seven own state of the art facilities. These facilities are located across 1) North at Jaipur (Rajasthan) and Haridwar (Uttarakhand), 2) West at Kolhapur (Maharashtra), Athal and Dadra (Union Territory of Dadra and Nagar Haveli) 3) South at Chennai (Tamil Nadu) and Telangana. The East market of the country is serviced through contract manufacturing arrangement in Bihar and Odisha for manufacturing PVC and HDPE (DWC) pipes.

North region (~30% of the contribution to the FY21 revenue): The north region has been the largest contributor to the revenue of Prince over the years. Prince has strong penetration and brand recall in North as it was the first company to set up the manufacturing base in North India in Haridwar, Uttarakhand and giving Prince the first mover advantage in the region. With gradual increase in contribution from other regions, the revenue contribution has come down ~40% to 30% in last five years

South region (~25% of the contribution to the FY21 revenue): Prince entered South market through inorganic route by acquiring Trubore brand from Chemplast Sanmar in Oct'12. Prince is undergoing a 51,943 MTPA greenfield capacity for pipes and fittings in Telangana. It has already commissioned 500MTPA capacity in 4QFY21 and expected to complete entire 51,943 MTPA over FY22-24E. Currently, fittings for the South India market are catered by plants in Athal and Haridwar. With the commissioning of Telangana plant, Prince would be able to cater the local demand through the Telangana plant more effectively and also save on freight cost.

West region(~30% of the contribution to the FY21 revenue): Prince caters the western market through three manufacturing facilities two of which are in Dadra and one in Kolhapur. The region which used to contribute ~22-23% of the revenue have now increased to ~30% and gained market share. We believe the share to remain at ~30% going forward.

East region (~15% of the contribution to the FY21 revenue): Company caters the demand in the estern region through asset light model. Prince has empanelled contract manufacturers in Balasore (Odisha) and Hajipur (Bihar) to service the region locally giving an early mover advantage. The region has been growing steadily as it's contribution has risen from ~12% in last four years to ~15% in FY21.

Exhibit 9: Continous capacity expansion across geographies

Plant location	Installed capacity (TPA)	Production Capacity (TPA)	Products	Year of Estb
Athal (UT of Dadra and Nagar Haveli)	15,982	13,555	Fittings	1995
Dadra (UT of Dadra and Nagar Haveli)	56,381	41,864	Pipes	2002
Haridwar (Uttarakhand)	82,224	64,199	Pipes and Fittings	2008
Chennai (Tamil Nadu)	55,836	41,412	Pipes	2012
Kolhapur (Maharashtra)	20,046	15,334	Pipes	2012
Jaipur (Rajasthan)	28,166	21,547	Pipes	2019
Telangana*	499	424	Pipes and Fittings	2021
Total	**259,134**	**198,335**		

Source: Company; *will expanded to: 51,943MTPA over FY22-24
Apart from these own manufacturing plants, Prince also has empanelled contract manufacturers in Balasore (Odisha) and Hajipur (Bihar)

Prince has one of the highest Fittings to Pipes ratio in the industry with contribution from Fittings at ~36% of the revenue

Established itself as an end to end piping systems supplier with extensive product portfolio

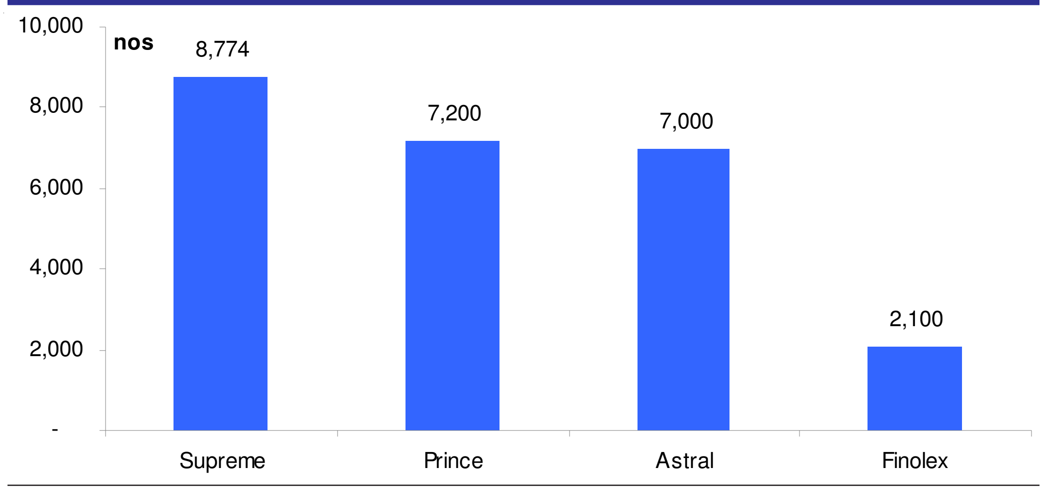
Owing to it's comprehensive product offering across diverse end use applications, Prince has established itself as an end to end piping system supplier. One of the critical factor in improving sales visibility is able to provide wide range of products. Prince has a dedicated products team which are rolling out new SKUs every year. Prince's SKU stands at 7,200+ nos as on FY21 which is lower only to industry leader Supreme Industries.

Exhibit 10: Product diversification of major pipe companies

	PVC Pipes	CPVC Pipes	HDPE Pipes	PPR Pipes	Tanks
Astral	✓	✓	✓	×	✓
Ashirvad Pipes	✓	✓	×	×	✓
Finolex Industries	✓	✓	×	×	×
Supreme Industries	✓	✓	✓	✓	✓
Prince Pipes	✓	✓	✓	✓	✓
Jain Irrigation	✓	✓	✓	✓	×

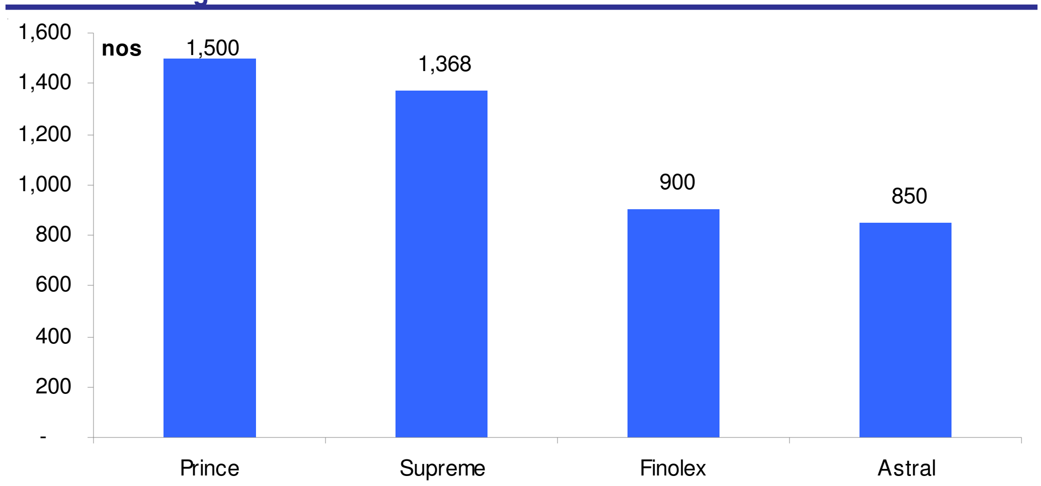
Source: Antique, Industry

Exhibit 11: SKU offerings of Prince, similar to industry leaders



Source: Antique, Industry

Exhibit 12: Strong distribution network



Source: Antique, Industry

Product diversification augurs well with foray in tanks business expanding the growth horizon

Prince entered in water storage tanks business in FY20 with launch of range of tanks in wide range of sizes from500-3000 ltrs under the brand name 'Prince Storefit'. The objective to enter the tanks category was to capture the vacuum left by the industry leader in tanks at the top of the pyramid. Also the distribution network for tanks is overlapping to pipes which make it a logical extension for any pipe player.

With the overlapping distribution network, tanks offers additional opportunity size of INR50bn

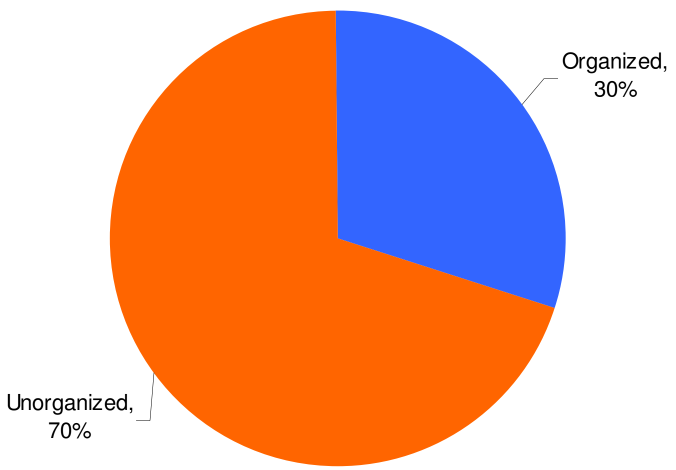
A water storage tank in India is INR45-50bn market opportunity growing at 5-6% CAGR and ~70% of the industry is serviced by the unorganized regional players. The organized players form less than 30% of the domestic tanks industry. The reason of dominance of regional players in tanks category is on account of voluminous nature of the product and high freight costs involved in the transition. The financial distress in Sintex, the industry leader in tank business has created a vacuum and decent profitability of the business has attracted all large pipe players like Astral, Supreme and Prince into the category. Increasing manufacturing base of these larger pipe companies resulting in pan India presence with overlapping efficient distribution network bodes well for the larger pipe players with Prince as one of the beneficiary. With growing construction activities, increasing concerns about water conservation, surge in population, increasing government regulation on waste water and aging water infrastructure the demand is expected to remain healthy for plastic storage tanks.

The tanks contribution is currently insignificant to Prince but will grow at very fast pace in the medium term on low base. This segment can become a sizeable avenue of growth once matures in few years.

Exhibit 13: Prince plastic water tank

Source: Company, Antique

Exhibit 14: INR50bn industry of water tanks dominated by unorganized players



Source: Company, Antique

Collaboration of Prince with Lubrizol, Tooling Holland BV, Ultratech Building Systems will help to penetrate newer markets, improve operational efficiencies and establish a strong brand

Collaborating with global players to remain ahead of industry

In FY21, Prince announced collaboration with Lubrizol - the world's largest manufacturers and inventors of CPVC compound to service hot and cold water plumbing market in India. The launch of Prince Flowguard Plus plumbing system has paved the way for penetration in the newer markets with an established product which has a strong brand recall. The product has witnessed strong traction across urban and semi-urban markets which will help Prince drive the market share gain in the CPVC segment.

Exhibit 15: Tie-up with Lubrizol for Flowguard

Source: Company

In 1QFY22, Prince entered collaboration with Lubrizol for CPVC industrial piping by launching Prince Corzan CPVC technology. The Corzan CPVC technology has been globally adopted as the preferred high performance piping technology across the industrial applications. Prince will offer CPVC piping systems and technology to range of industrial applications such as chemical, power generation, metal treatment, paper and pulp, mineral processing industry and water treatment plants. With this launch, Prince is India's only company to offer three polymer solutions for industrial applications through Easyfit in PVC, Greenfit in PPR and Onefit CPVC piping systems.

In FY21, Prince also announced a technical collaboration with Tooling Holland BV, Netherlands based global leader in plastic mould manufacturing association. This will enable Prince to draw upon Tooling Holland's technical expertise and deep knowledge, build skills at par with international standards, significantly enhance internal operational efficiencies and optimize production costs.

Prince is also exploring synergies with Ultratech Building Solutions (UBS) which is platform of 2000+ dealers in India. UBS-Prince synergy is a strong win-win for semi-urban and rural India which will enable Prince to penetrate tier 2-3 cities, towns, villages easily. This will also result in additional revenue channel and opportunity to market Prince's product basket to the existing dealers within UBS.

Committed to invest in brand building even in lean periods

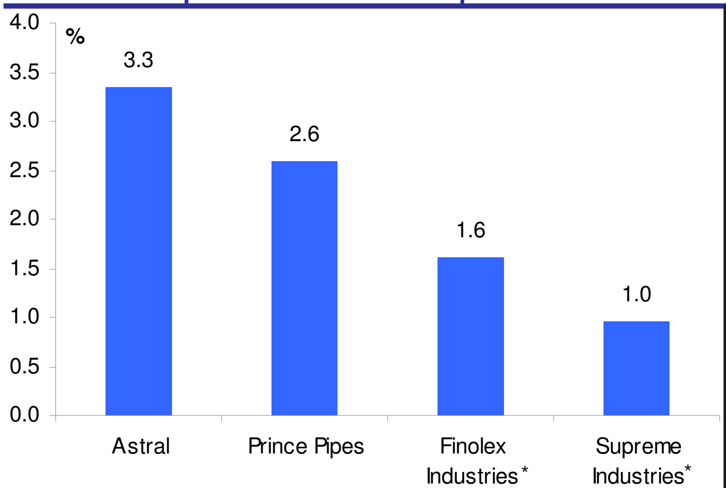
Prince is focused in creating strong brand equity with perception of pipe built for both urban/ rural areas. Company is committed to spend 2.5-3% of the revenue in advertisements and promotional expenses. The majority of the ad spends (~70%) is expected to be spent on primary target audience in channel partners and activities such as meetings with dealers, retailers, architects and consultants for informing them about new products, meetings with plumbers to educate them about the products. *Prince was the first company to start a loyalty program called 'Prince Udaan' to connect with and reward the distributors, retailers, wholesalers and plumbers.* Under this program the channel partners receives reward point for purchase which can be redeemed against the gifts available.

The remaining ~30% of the branding budget is dedicated for above the line activities which involves in-film and co-branding movie associations along with online and social media marketing.

Exhibit 16: Spending in the channel though dealer meets and ad campaigns

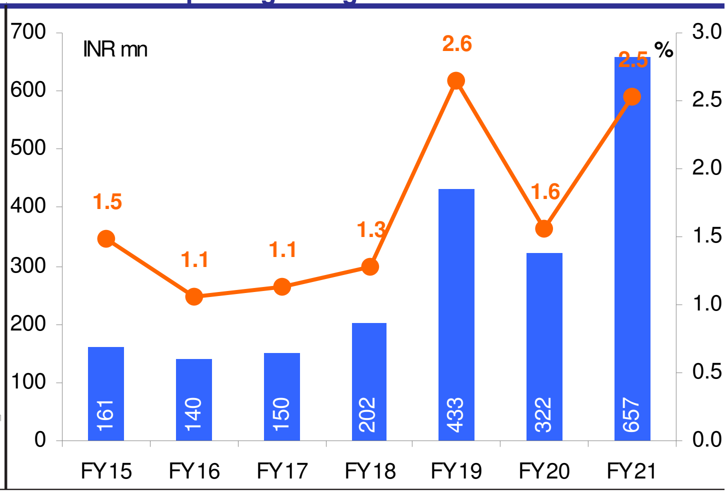
Source: Company

Exhibit 17: Ad-spends as a % of sales vs peers



Source: Industry, Antique;
* Ad-spend for Supreme and Finolex look lower as it has sizeable B2B business

Exhibit 18: Ad-spends growing at 15% CAGR for Prince



Source: Company

Restoring investor confidence by addressing the concerns

The perception of Prince has been impacted by few of the historical business decisions which had resulted in concerns on the company and it's management. This involved 1) Promoters real estate business transaction 2) High related party transactions 3) High contingent liabilities. However, we believe the concerns have been fairly addressed and as the street recognizes this, that will drive further re-rating of the company.

1. Related party transactions: Have completely stopped

(a) Till FY18, Prince used to procure some of its raw materials through two of its group companies viz. Prince Marketing and Ace Polyplast. This was done to avail 4% Special Additional Duty benefit. Prince has stopped procuring from these two companies and started to procure by itself as this benefit is now no longer available under new GST regime from FY19 onwards.

(b) Prince had paid advance amount of INR400mn against property to Prince Marketing. The conveyance of the immovable property had not been completed. Accordingly, PPF and Prince Marketing entered into an agreement to record the terms of repayment of the advance amount. As on Mar'21, Prince has received the entire amount of INR400mn back from Prince Marketing.

Exhibit 19: Related party transactions

Name of the related party	Nature	FY16	FY17	FY18	FY19	FY20	FY21
Prince Marketing	Purchase of goods	979	1,039	642	36	-	-
Ace Polyplast pvt Ltd	Purchase of goods	1,004	1,646	1,276	66	193	-
Prince Marketing	Advance against property	-	-	345	55	-	(400)
Prince Marketing	Sale of goods	32	162	-	147	-	-
Ace Polyplast pvt Ltd	Sale of goods	79	595	-	-	-	-
As a % of sales		**21%**	**28%**	**17%**	**2%**	**1%**	**-2%**

Source: Company

2. Contingent liabilities

(a) As on Mar'21, Prince had contingent liability on account of guarantees of INR726mn (Mar'20 INR853mn). This was on account of Prince shifting few of its major distributors under channel financing (with recourse) to improve working capital cycle. This was given only to long time channel partners with credible history and proper due diligence. Based on satisfactory track record of distributors (availing channel financing facility), the company expects such facilities may get renewed on without recourse terms over the next 1-2 year period.

(b) **Litigation between Aditya Developers (Aditya) vs. Montana Developers Private Limited (Montana)**

Two of the promoters of Prince owns total 20% stake in Aditya. Aditya entered into a joint venture (JV) agreement with Montana. Montana made an interest-free deposit of Rs462.5mn to the JV to develop a real estate property. Later, Montana initiated arbitration proceedings in 2013 and claimed INR9.05bn from Aditya and its promoters and filed a criminal complaint alleging misrepresentation of certain material and forgery. The matter is currently subjudice. Assuming the worst case scenario, the promoters would be liable to pay 20% of INR9bn which comes to INR1.8bn which can be settled by minor promoter stake in the company.

Apart from this, there were concerns of high leverage amongst the group companies and high pledged shares during the IPO of the company. However, the management has removed all the pledge within 24hrs of IPO from the proceeds. The high debts raised by the promoters in various group companies to complete the real estate projects have also been repaid.

Outlook and valuation - Initiate coverage with 'BUY'

We expect Prince to report revenue/net profit CAGR of 15%/13% over FY21-FY24E, respectively with industry leading volume growth. The valuation discount of Prince compared to larger peers like Supreme and Astral is expected to narrow given Prince's ability to gain market share without impacting it's return profile. With full commissioning of Telangana facility, increase in asset turn, steady improvement in RoCE and operating profitability, we believe, the re-rating of Prince is eminent.

Prince's current valuation of 25x FY24E EPS is a discount of 53%/11% to larger peers like Astral/Supreme. We believe this is on account of some of the concerns like related party transactions which the management of Prince has already addressed and litigation with high contingent liabilities on promoters of the company. We believe, the management of Prince has addressed majority of the concerns, the consistent delivery in performance would drive the re-rating of the company going ahead.

We initiate coverage on Prince with BUY rating and target price of INR875 based on 30x FY24E EPS which is discount of 40% to Astral and at par with Supreme.

Exhibit 20: Valuation Summary

	Rating	Mcap (INR bn)	CMP (INR)	TP (INR)	Up-side (%)	Target Multiple FY24E EPS	EPS (INR) FY21	FY22E	FY23E	FY24E	EPS CAGR FY21-24E (%)
Kajaria Ceramics	Buy	189	1,187	1,320	11	32x	19.4	24.0	33.9	41.2	29
Somany Ceramics	Buy	29	685	900	31	20x	16.8	23.3	32.5	45.1	39
Cera Sanitaryware	Buy	57	4,362	5,120	17	30x	77.5	117.1	145.5	170.7	30
Greenlam Laminates	Buy	33	1,385	1,720	24	25x	35.7	48.1	59.4	68.9	25
Supreme Industries	Hold	274	2,142	2,320	8	30x	77.0	58.4	68.0	77.3	0
Astral Ltd	Sell	413	2,151	1,950	-9	50x	20.1	26.0	32.5	38.9	25
Finolex Industries	Buy	106	168	200	19	20x	12.0	9.2	9.1	9.8	-7
Prince Pipes and Fittings	Buy	79	718	875	22	30x	20.2	19.8	23.2	29.1	13

	P/E (x) FY22E	FY23E	FY24E	RoE (%) FY22E	FY23E	FY24E
Kajaria Ceramics	49.4	35.1	28.8	18.6	22.8	23.7
Somany Ceramics	27.9	20.0	14.4	13.1	15.7	18.1
Cera Sanitaryware	56.3	37.3	30.0	16.3	17.5	17.6
Greenlam Laminates	24.2	19.6	16.9	18.6	19.5	19.1
Supreme Industries	36.9	31.7	27.9	22.1	22.5	22.2
Astral Ltd	78.9	63.1	52.7	24.4	24.3	23.2
Finolex Industries	18.5	18.9	17.5	17.3	15.3	15.0
Prince Pipes and Fittings	36.2	30.9	24.7	19.3	19.2	20.3

Source: Antique

Key risks

Volatility in the PVC (key RM) prices: FY21 had witnessed a sharp surge in the prices of PVC which is the key raw material on account of supply led disruptions and linked to crude prices. Such extreme volatility can lead to short term impact in terms of inventory gains or losses affecting the profitability. However, the company has policy to pass on the change in RM with a lag of two weeks. Also, if this increase in PVC prices is not passed on to the consumers can lead to near term pressure on the operating margins by way of inventory losses.

Softening of agri pipes demand: The 1Q which is generally the peak season for agri pipes demand got impacted in FY22 given the high prices of PVC pipes. The prices if remained at such elevated levels can dampen the demand in agri pipes going ahead in the near term.

Weakness in real estate activities or slump in economy: Broadly, the demand of plastic pipes comes from 35-40% in plumbing, 45-50% from irrigation and 10-15% from water transportation and sewerage applications and 5% others. Any slowdown in government expenditure for water transportation impacts the demand from PVC pipes which are used in last mile connectivity. Also, weakness in real estate affects the demand from plumbing pipes.

Higher than expected competitive intensity from the organized players: Any attempts by the larger organized players to gain market share esp. while entering newer geographies by under-cutting prices can lead to intensify the competition.

Outstanding litigation in Aditya Developers: The Montana Developers (MDPL) had initiated arbitrage proceedings against Aditya Developers where the promoters hold 20%. In this outstanding litigation, MDPL has claimed damages of INR9.04bn. In the event of adverse outcome of the litigation, the promoters would be liable for 20% of the amount i.e. INR1.81bn. In this worst case possibility, promoters of Prince may have to dilute their shareholding in Prince.

Company overview

Prince, incorporated in 1987, is promoted by Mr. Jayant Chheda, who entered into the PVC products business in 1982 and started 1st pipe manufacturing unit in Mumbai during 1987. Today, Prince is one of India's largest PVC pipe manufacturers & multi polymer processors in terms of number of distributors with a strong brand recall. Prince markets its products under two brand names: Prince Piping Systems and Trubore.

Prince is into manufacturing of polymer pipes using four different polymers viz. UPVC, CPVC, PPR and HDPE, and fittings using three different polymers viz. UPVC, CPVC and PPR. These are used varied applications across plumbing systems, borewell, agriculture pipes, water storage tanks, industrial piping and electrical conduit pipes, together with the widest sewage product range and underground drainage solutions. Further, these are used in both the rural and urban markets. Prince operates through seven strategically located manufacturing plants giving it a strong presence in North, West and South India. Prince has overall capacity of 259K MTPA spread across these 7 facilities.

Prince had collaborated with Lubrizol of U.S - the world's largest manufacturers and inventors of CPVC compounds. This gives Prince exclusivity to bring Prince Flowguard Plus (CPVC plumbing systems)/ Corzan (the CPVC industrial piping systems) to the market.

Exhibit 21: Key Milestones in the journey of Prince

1987	• Mr. Jayant Chheda commenced manufacturing unit of PVC products
1995	• Manufacturin g unit at Athal (Silvassa - D&N.H) was established to set up large scale Injection Moulding Unit
2008	• Manufacturing unit at Haridwar (Uttarakhand) was established to cater increasing demand of Prince pipe products
2012	• Prince acquired 'Trubore', a brand from South India from Chemplast Sanmar group along with their two manufacturing units at Kolhapur and Chennai
2016	• First player to launch loyalty program called 'Prince Udaan' to reward its value chain
2018	• Prince apponts Akshay Kumar as their brand ambassador
2018	• Launched the brand's biggest manufacturing unit in Jaipur, Rajasthan
2020	• Prince collaborates with Lubrizol, world's largest manufacturers and inventors of CPVC products; Got listed on BSE and NSE with IPO of INR5bn
2021	• Begins commercial production at Telangana ahead of schedule. Strengthens strategic presence and penetration in South India

Source: Company

Exhibit 22: Management overview

Mr. Jayant Chheda	CMD	He has extensive industry knowledge, more than four decades of experience and has been associated with the company since its incorporation.
Mr. Parag Chheda	Joint MD	An MBA graduate from Oakland Community College and has been associated with the company since 1996
Mr. Vipul Chheda	Executive Director	He has been associated with the company since 20 years and a vital part of company's growth
Mr. Shyam Sharda	Chief Financial Officer	With 20 years of experience in finance, accounts and taxation, he has previously worked with S. Kumar Nationwide Ltd as Senior Vice-President (Finance & Group Accounts) and United Phosphorus Ltd as Deputy General Manager (Finance)
Mr. Vininder Singh Baweja	Chief Operations Officer	An IIT Roorkee post graduate in MBA, he has served in Hindustan Unilever Ltd., Volvo Eicher and has 15+ years of experience.
Mr. Ashok Mehra	Vice President- Sales & Marketing - Prince	He comes with 30+ years of experience and has worked with Jaguar P. Ltd. and Pidilite Industries Ltd.
Mr. Hemant Kumar	GM - Marketing & New Product Development	He has over 35 years of experience and has worked with Pidilite Industries Ltd. in the past.
Mr. Nihar Chheda	VP Strategy	He collaborates closely with the team focusing on expanding distribution network. He is also responsible for procuring company's RM procurement strategy to drive cost efficiencies.

Source: Company

Exhibit 23: Prince's product portfolio

Source: Company

Exhibit 24: Business overview

	UPVC	CPVC	HDPE	PPR/Composite pipes
Market size	195	45	45	15
of the total polymer demand	65%	15%	15%	5%
Contribution to the Prince's revenue	70-72%	15-20%	1-2%	5-6%
Brands	Easyfit, Rainfit,Ultrafit	Flowguard Plus, PrinceCorzan	Corfit	Greenfit
Applications	Irrigation,WSS, Industrial	WSS, Plumbing, Industrials	Irrigation, WSS, Industrial	Gas pipeline, Plumbing, Industrial

Source: Company

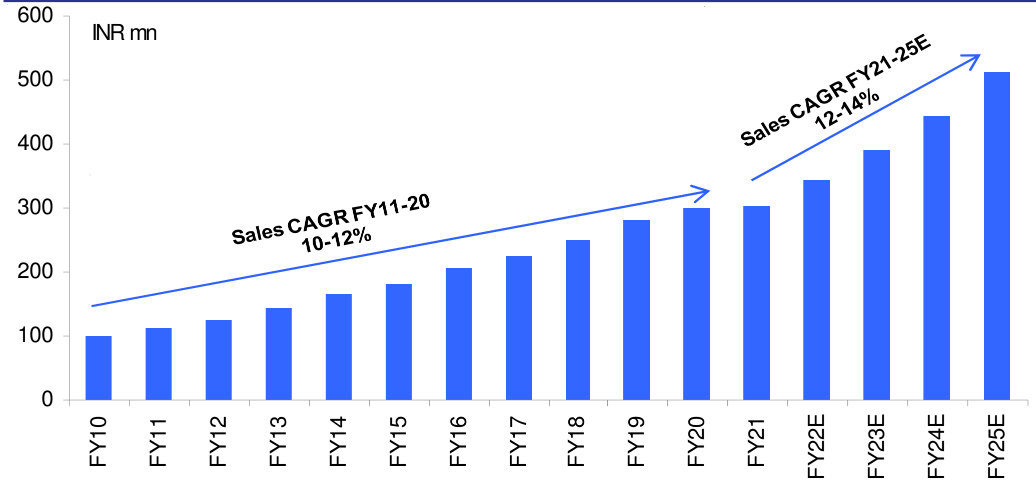
Exhibit 25: Geographical presence

Source: Company

Industry overview

Plastic pipes have emerged as vital link in infrastructure to transport and distribute various resources such as water, oil, gas etc. Pipes have been increasingly used in variety of applications such as irrigation, household plumbing, sewerage and industrial applications. Wide variety of pipes are used based on user application such as plastic pipes, galvanized iron pipes, cement pipes, ERW pipes etc. However, the plastic pipes are gaining prominence and emerged as material of choice based on it's availability of raw materials, ease of use, light weight, ease of installation, longer shelf life and is cheaper. The domestic plastic pipes industry is pegged at INR300bn as on FY20 and has been growing at CAGR of 10-12% over FY15-20 on the back of government's push on cleanliness and sanitation, building affordable houses, replacement and substitution demand. The demand is expected to grow by 12-14% CAGR over FY21-25 led by higher investments in WSS projects, substitution of metal pipes with polymer pipes and replacement demand.

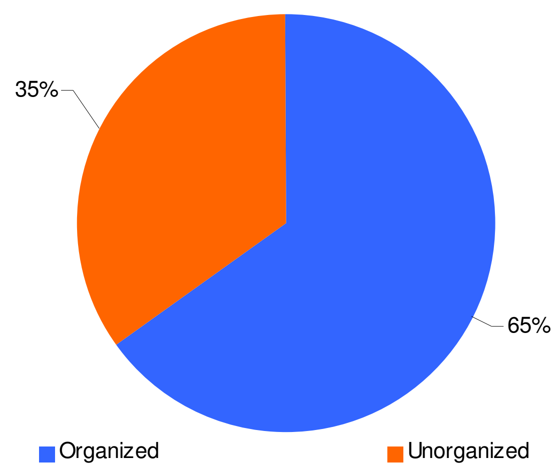
Exhibit 26: Plastic pipe demand expected to grow at 12-14% CAGR



Source: Crisil, Antique

The organised segment accounts for a 60-65% share of India's plastic piping industry. However, the growth of organized players was higher in last decade compared to unorganized players due to their well-established brand presence, improving operating efficiency, expanding reach and distribution network.

Exhibit27: Organised players constitute ~65% of the plastic pipes industry



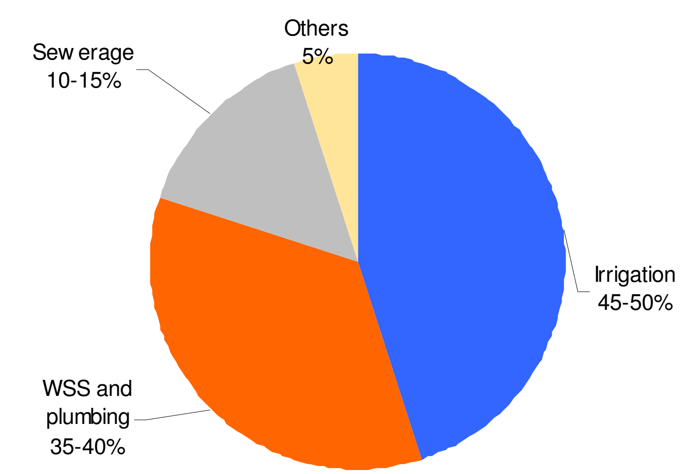
Source: Industry, Antique

Exhibit 28: Domestic polymer pipe industry breakup

	UPVC	CPVC	HDPE	PPR
% of total plastic pipe demand	65%	15%	15%	5%
Industry size (INR bn)	195	45	45	15
Growth rate (%)	11-12%	20-21%	12-13%	6-7%
Applications	Irrigation,WSS, Industrial	WSS, Plumbing, Industrials	Irrigation, WSS, Industrial	Plumbing, Industrial
Life (years)	20-25	30-35	50	50
Cost	Cheaper than GI	Cheaper than GI, costlier than UPVC	Cheaper than GI, costlier than UPVC	Cheaper than GI, costlier than UPVC
Max temp(deg Celsius)	60-70	90-100	90-100	90-100
Strength (hoop)	500-600	450-550	350-400	250-300
Corrosion	No	No	No	No
Leakage	Leakage-free	Leakage-free	Leakage-free	Leakage-free
Bacterial growth	Low	Very low	Very low	Very Low
Installation	Easier	Easier	Easier	Difficult
Thermal conductivity and insulation	Low	Low	Low	Low

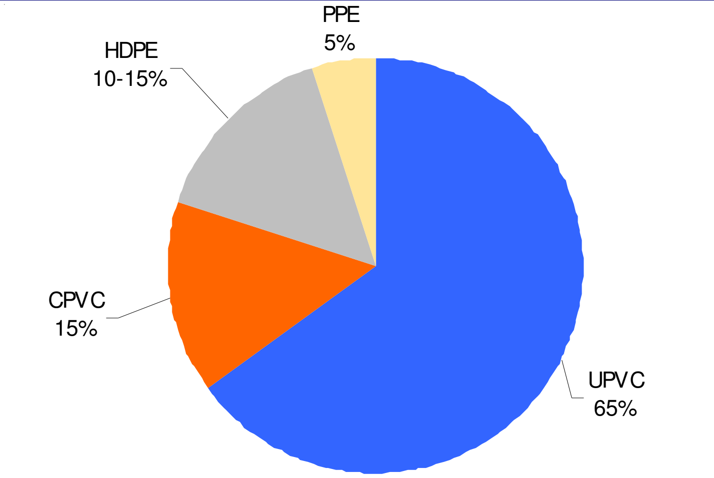
Source: Industry, Antique

Exhibit 29: Industry break-up in terms of applications



Source: Industry, Antique

Exhibit 30: industry break-up in terms of polymer type



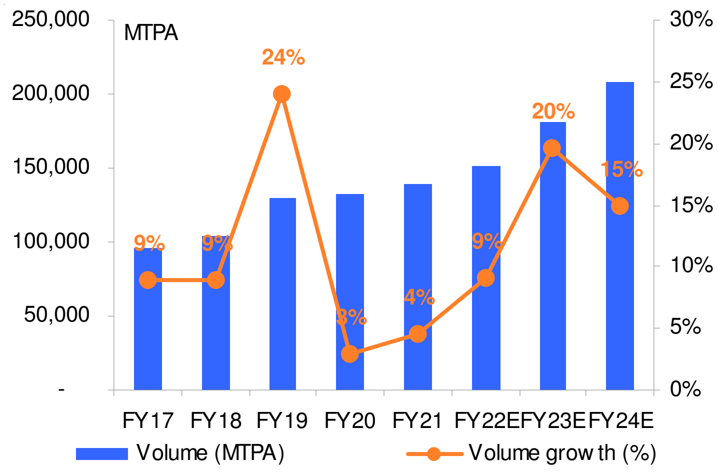
Source: Industry, Antique

Financial outlook

Expect Prince to register revenue CAGR of 15% over FY21-24E

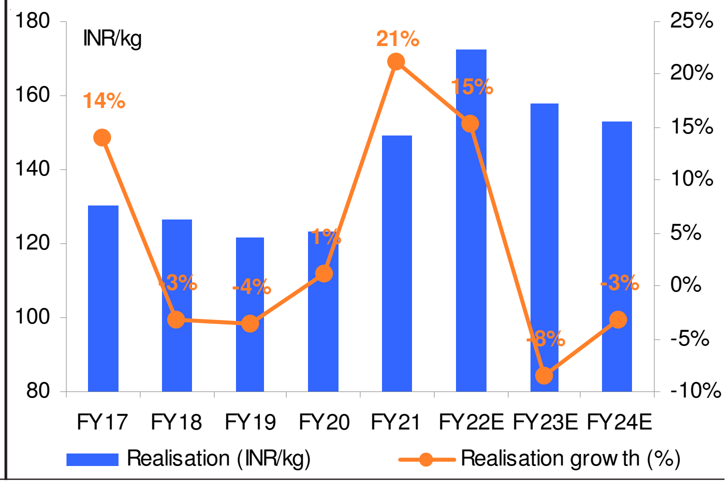
Prince has delivered revenue CAGR of 14% over FY17-21 led by robust growth in plumbing pipes. The overall volume CAGR during the same period stood at 10% while realization CAGR was 3%. We expect Prince to post revenue CAGR of 15% over FY21-24E reaching INR31.8bn by FY24E on the back 1) timely commissioning of Telengana plant 2) higher than industry growth rate in pipes and fittings led by shift towards larger organized players.

Exhibit 31: Volume and volume growth trend



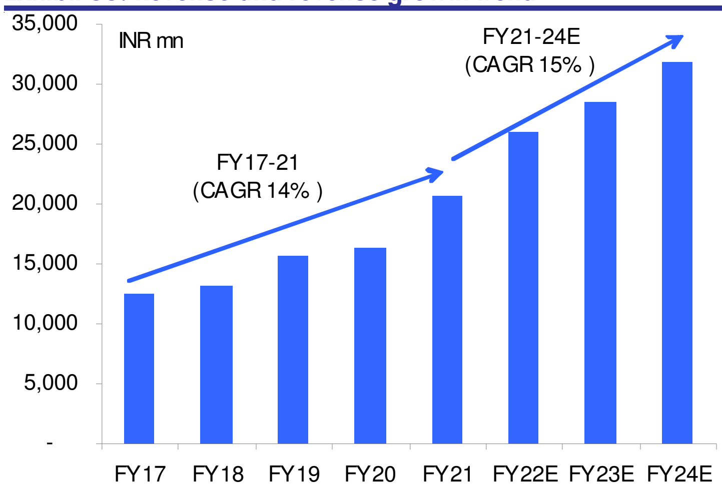
Source: Company, Antique

Exhibit 32: Realisation and realization growth trend



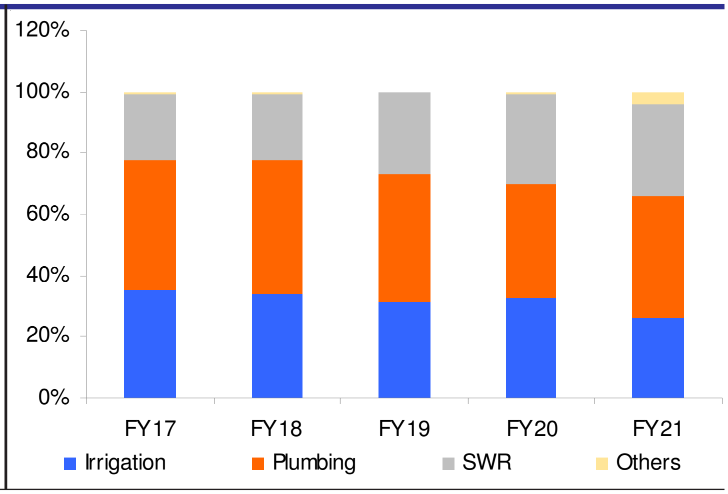
Source: Company, Antique

Exhibit 33: Revenue and revenue growth trend



Source: Company, Antique

Exhibit 34: Product mix trend



Source: Company

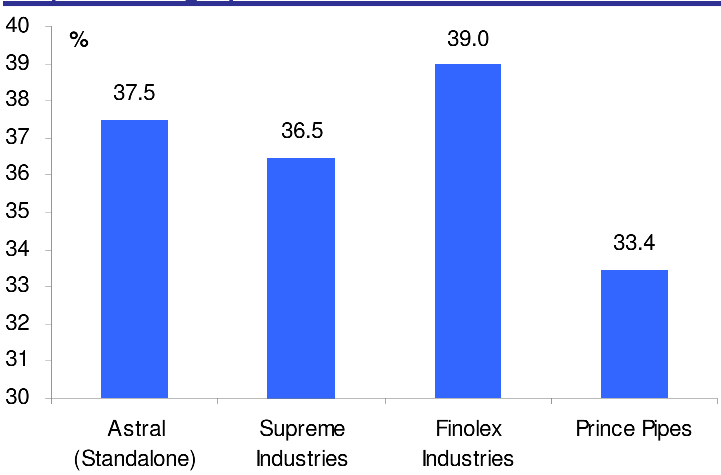
Steady improvement in operating profits led by superior mix, logistical savings and operating leverage

Prince has been inching up the profitability ladder over the years led by overall mix improvement (higher contribution of plumbing pipes or CPVC and PPR). The gross margin expanded by 476bps over FY17-21 to 33.4% as a result of a) improving mix led by higher contribution CPVC pipes and b) increasing PVC resin prices resulting in inventory gains. We expect, the PVC prices will stabilize in 2HFY22 and Prince's gross margins to stabilize at 30%.

(1) Discounts compared to peers is narrowing

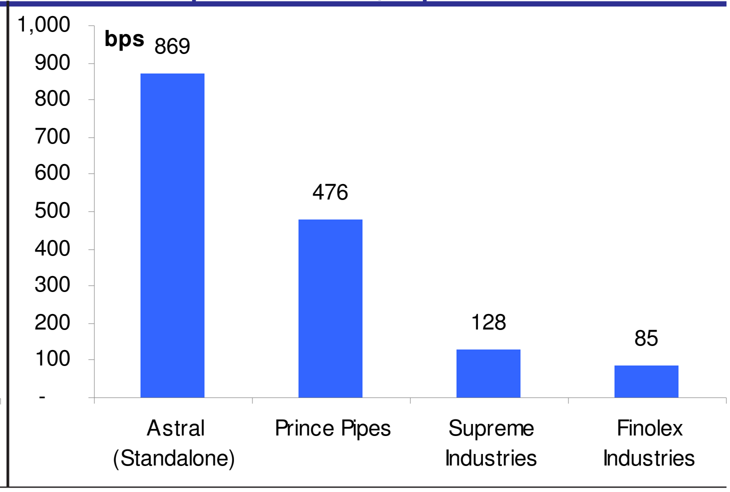
Prince products sell at discount to larger peers like Astral/Ashirwad. Apart from the discount, higher share of low margin agri pipes and lower share high margin of CPVC pipes results in lower gross margin for Prince (33% in FY21) compared to that of Astral (37% in FY21). During FY21, gross margin was elevated on inventory gains for most of the PVC pipe players and expected to normalize in FY22 onwards. In CPVC pipes, Prince has narrowed the pricing from 10-15% discount earlier to 3-5% in last 18 months and majority of this was led by Prince FlowGuard which has strong brand equity. With gradual decline in low margin agri pipes and further focus on CPVC products like FlowGuard, Corzan Prince could minimize the discount further compared to larger peers.

Exhibit 35: While Prince lags in gross margins (FY21) compared to larger peers…



Source: Industry, Antique

Exhibit 36: … Improvement in gross margin over FY17-21 has been better compared to Finolex, Supreme



Source: Industry, Antique

(2) Improvement in product mix to accelerate with Prince FlowGuard gaining prominence

Agri pipes contribute ~32% of revenue which has gradually come down from 35% in FY17 while the gross margin during same time has improved 240bps. Faster growth in Plumbing and SWR pipes compared to agri pipes will further enhance the gross margins.

(3) Logistical savings on account of decentralization of manufacturing network

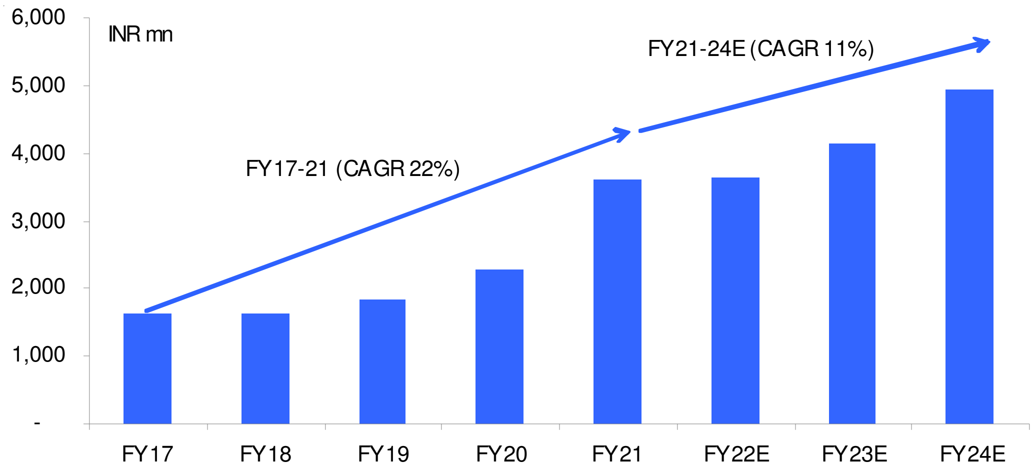
Prince's requirement of Fittings product in South India is currently being serviced from the Haridwar facility situated in North India. However, post the full commissioning of Telangana plant, the fittings demand of South India will be serviced from Telangana facility leading to savings of 5-7% in the overall expenses which could be utilized to gain M.S or improve the margins.

(4) Benefit of operating leverage with higher volumes

With increasing volumes and stabilizing of Telangana operations, increasing revenue on the fixed overheads should result in benefits of higher operating leverage.

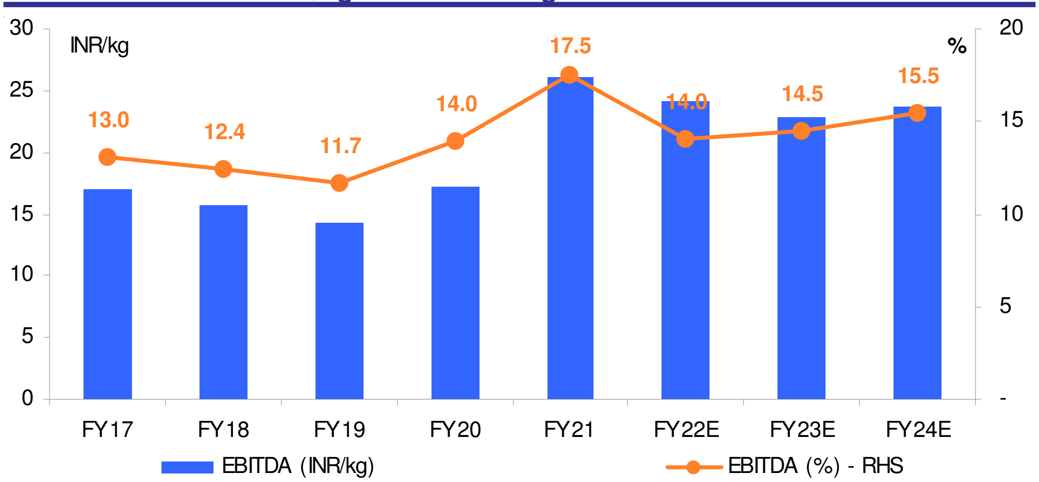
Prince's EBITDA has risen at a CAGR of 22% over FY17-21 with EBITDA margin expansion of 450bps led by improvement in gross margins and better operating leverage. We have factored EBITDA CAGR of 11% over FY21-24E with EBITDA margin stabilizing at 15.5% in FY24E from 14% in FY20. The company reported EBITDA margin of 17.5% in FY21 which was led by inventory gains given consistent rise in PVC prices. However, excluding the impact of inventory gains, the EBITDA margin stood at 14.6%.

Exhibit 37: Trend of EBITDA and EBITDA growth



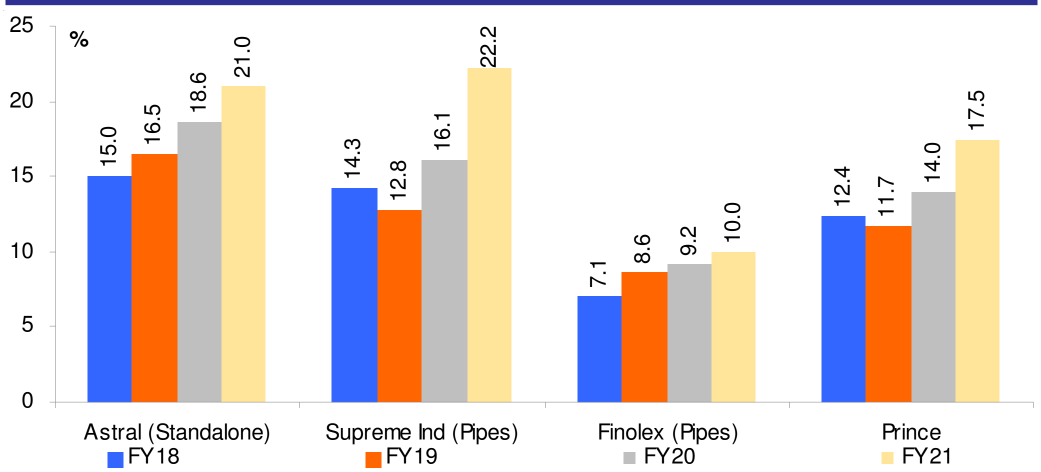
Source: Company, Antique

Exhibit 38: Trend of EBITDA/kg and EBITDA margin



Source: Company, Antique

Exhibit39: Peer comparison of EBITDA margin



Source: Industry, Antique

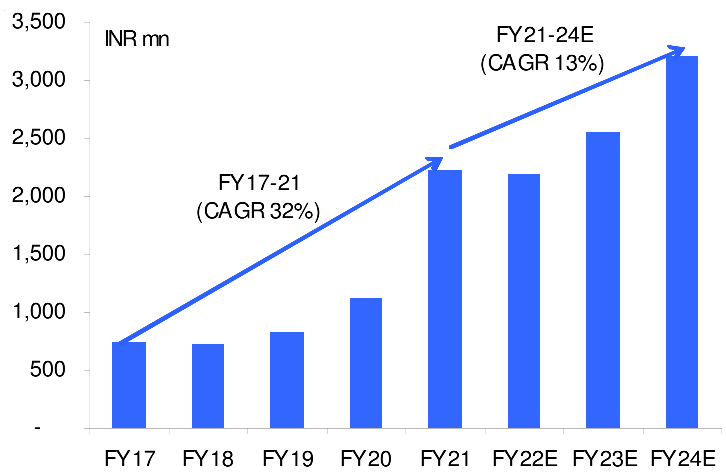
IPO of INR5bn at INR178/sh

INR mn	
IPO Proceeds	5,000
Offer for sale	2,500
Proceeds from Fresh issue	2,500
Telangana Greenfield Plant	1,840
Debt repayment	482
Plant Upgradation	178

Source: RHP

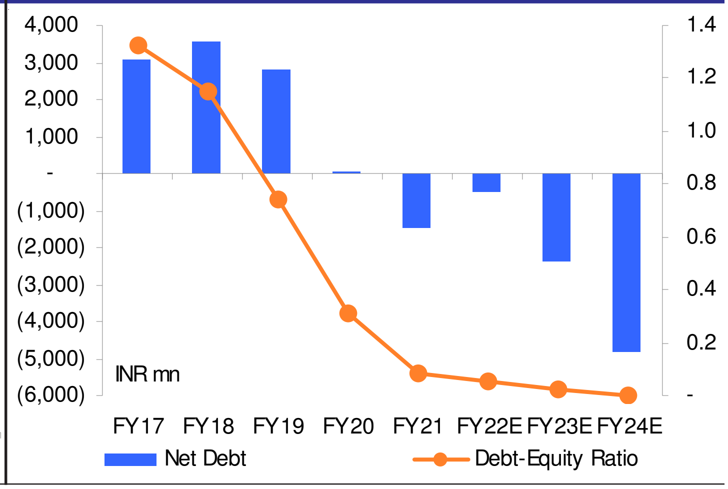
Over FY17-21, Prince registered net profit CAGR of 32% led by superior revenue growth, 450bps EBITDA margin expansion and faster de-leveraging. We believe, Prince could register net profit CAGR of 13% over FY21-24E led by lower interest expense and improvement in profitability. With an average of FCF generation of INR1.6bn pa over next three years and major capex in Telangana is behind now, we believe majority of the free cash flow would be diverted towards debt repayment and improvement in cash surplus. In Dec'19, Prince diluted it's equity through IPO of INR5bn which included offer for sale worth INR2.5bn for reducing promoter's leverage and fresh issue of INR2.5bn for Telangana capex.

Exhibit 40: Trend for Net profit



Source: Company, Antique

Exhibit 41: Trend of net debt to equity

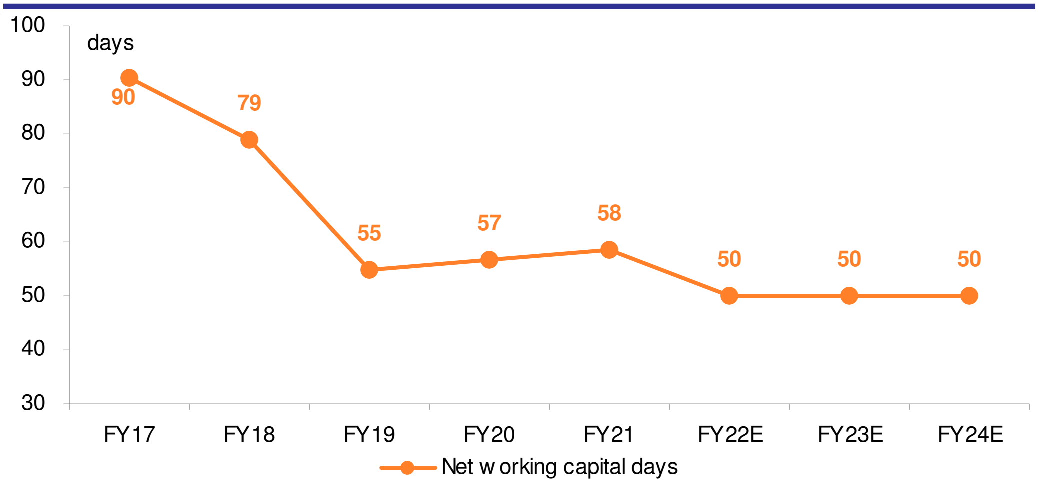


Source: Company, Antique

Sharp improvement in working capital

Prince's working capital days reduced to 36 days in FY21 from 90 days in FY17 encashing the consolidation in the industry by tightening the receivables and rationalizing inventories. We believe majority of the improvement in working capital is behind us and expect it to be ~50days going ahead.

Exhibit 42: Trend of WC



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
Net Revenue	**16,357**	**20,715**	**26,050**	**28,533**	**31,779**
Op. Expenses	14,069	17,096	22,403	24,396	26,853
EBITDA	**2,288**	**3,619**	**3,647**	**4,137**	**4,926**
Depreciation	520	594	699	785	825
EBIT	**1,768**	**3,025**	**2,948**	**3,352**	**4,100**
Other income	69	176	90	144	230
Interest Exp.	332	207	98	53	16
Reported PBT	**1,506**	**2,994**	**2,940**	**3,443**	**4,315**
Tax	381	773	759	889	1,114
Reported PAT	**1,125**	**2,221**	**2,181**	**2,554**	**3,201**
Net Profit	**1,125**	**2,221**	**2,181**	**2,554**	**3,201**
Adjusted PAT	**1,125**	**2,221**	**2,181**	**2,554**	**3,201**
Adjusted EPS (INR)	**10.2**	**20.2**	**19.8**	**23.2**	**29.1**

Balance sheet (INRm)

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
Share Capital	1,100	1,100	1,100	1,100	1,100
Reserves & Surplus	7,277	9,335	11,118	13,275	16,078
Networth	**8,377**	**10,435**	**12,219**	**14,375**	**17,179**
Debt	2,598	852	652	352	52
Net deferred Tax liabilities	133	133	133	133	133
Capital Employed	**11,108**	**11,420**	**13,004**	**14,860**	**17,364**
Gross Fixed Assets	6,458	7,113	9,319	9,819	10,319
Accumulated Depreciation	1,573	2,083	2,782	3,568	4,393
Capital work in progress	75	765	50	50	50
Net Fixed Assets	**4,961**	**5,795**	**6,586**	**6,301**	**5,975**
Investments	88	67	67	67	67
Non Current Investments	88	67	67	67	67
Current Assets, Loans & Advances					
Inventory	3,445	2,273	3,569	3,909	4,353
Debtors	1,797	3,534	3,569	3,909	4,353
Cash & Bank balance	2,570	2,299	1,298	3,121	5,533
Loans & advances and others	2,273	2,291	2,291	2,291	2,291
Current Liabilities & Provisions					
Liabilities	2,698	2,491	2,534	2,763	3,047
Provisions	1,330	2,349	1,842	1,973	2,162
Net Current Assets	**6,058**	**5,558**	**6,350**	**8,492**	**11,321**
Application of Funds	**11,108**	**11,420**	**13,004**	**14,860**	**17,364**

Per share data

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
No. of shares (m)	110	110	110	110	110
Diluted no. of shares (m)	110	110	110	110	110
BVPS (INR)	76.1	94.8	111.1	130.7	156.1
CEPS (INR)	14.9	25.6	26.2	30.4	36.6
DPS (INR)	1.0	3.5	3.0	3.0	3.0

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT	**1,506**	**2,991**	**2,940**	**3,443**	**4,315**
Depreciation & amortisation	520	594	699	785	825
Interest expense	330	201	98	53	16
(Inc)/Dec in working capital	(1,081)	(149)	(1,794)	(319)	(417)
Tax paid	(372)	(626)	(759)	(889)	(1,114)
Less: Interest/Div. Income Recd.	(0)	(0)	(90)	(144)	(230)
Other operating Cash Flow	120	61	-	-	-
CF from operating activities	**1,023**	**3,073**	**1,094**	**2,929**	**3,395**
Capital expenditure	(1,188)	(1,210)	(1,490)	(500)	(500)
Inc/(Dec) in investments	(2,489)	354	-	-	-
Add: Interest/Div. Income Recd.	0	0	90	144	230
CF from investing activities	**(3,677)**	**(856)**	**(1,400)**	**(356)**	**(270)**
Inc/(Dec) in share capital	3,394	(6)	-	-	-
Inc/(Dec) in debt	(371)	(1,746)	(200)	(300)	(300)
Dividend Paid	(110)	(165)	(397)	(397)	(397)
Others	(347)	(217)	(98)	(53)	(16)
CF from financing activities	**2,566**	**(2,133)**	**(695)**	**(750)**	**(713)**
Net cash flow	**(88)**	**84**	**(1,002)**	**1,823**	**2,412**
Opening balance	131	2,570	2,299	1,298	3,121
Closing balance	**43**	**2,654**	**1,298**	**3,121**	**5,533**

Growth indicators (%)

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
Revenue(%)	4.1	26.6	25.8	9.5	11.4
EBITDA(%)	24.3	58.2	0.8	13.4	19.1
Adj PAT(%)	37.0	97.5	(1.8)	17.1	25.3
Adj EPS(%)	12.1	97.5	(1.8)	17.1	25.3

Valuation (x)

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E	70.2	35.6	36.2	30.9	24.7
P/BV	9.4	7.6	6.5	5.5	4.6
EV/EBITDA	34.5	21.4	21.5	18.4	14.9
EV/Sales	4.8	3.7	3.0	2.7	2.3
Dividend Yield (%)	1.0	0.5	0.4	0.4	0.4

Financial ratios

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
RoE (%)	18.2	23.6	19.3	19.2	20.3
RoCE (%)	20.2	28.4	24.9	25.1	26.9
Asset/T.O (x)	1.8	1.9	2.1	2.1	2.0
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.2)	(0.3)
EBIT/Interest (x)	5.5	15.5	31.1	66.2	276.5

Margins (%)

Year ended 31 Mar	FY20	FY21	FY22e	FY23e	FY24e
EBITDA Margin(%)	14.0	17.5	14.0	14.5	15.5
EBIT Margin(%)	10.8	14.6	11.3	11.7	12.9
PAT Margin(%)	6.8	10.6	8.3	8.9	10.0

Source: Company Antique

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