

Institutional Equity Research

Prince Pipes & Fittings

PVC Pipes | India

4QFY23 Result Update | 27 May, 2023

CMP* (Rs)	610
Upside/ (Downside) (%)	15
Bloomberg Ticker	PRINCPIN
Market Cap. (Rs bn)	67

BUY

Target Price: Rs700

Strong Performance; Healthy Volumes and Margin Improvement ahead

Prince Pipes (Prince) reported a strong performance in 4QFY23. Revenue decreased by 15% YoY (+8% QoQ) to Rs7.6bn (our estimate of Rs7.4bn) due to better-than-expected realization, despite low volumes. Its volume declined marginally by 2% YoY to 44,317T, while realisation declined 13% YoY but improved 7% QoQ to Rs172/KG. Prince reported EBITDA of Rs1.5bn (up 6% YoY/up 114% QoQ), 49% higher than our estimates of Rs997mn, as its EBITDA margin stood at 19.4% (up 382bps YoY/up 956bps QoQ), vs. our estimate of 13.5% due to significant decline in RM cost. RM/Sales fell 570bps YoY/1068bps QoQ to 67%. EBITDA margin was also supported by inventory gain of Rs250mn, adjusted for that EBITDA margin stood at 16.1%. PAT came in at Rs941mn (up 7% YoY/up 166% QoQ), 60.6% higher than our estimates of Rs586mn due to much stronger EBITDA margins, lower interest expenses and higher non-operating income. The company continue to remain long term debt free and net cash stood at Rs1.58bn at FY23-end. The PVC prices are expected to stabilize in the near term which will lead to a healthy demand going ahead. Due to implementation of new ERP system, management indicated tough performance in 1QFY24, while balance 9MFY24 would cover up volumes and on a full year basis healthy volume performance is expected on affordable pricing post correction. The Company would benefit from increasing contribution from CPVC, plastic tank business and incremental revenues from bath-ware segment. **In view of the expected volume pick-up, cost optimization measures, strategies for healthy growth and valuation comfort, we maintain our BUY rating on the stock, with a revised Target Price of Rs700 (vs. earlier Rs725), valuing the stock at an unrevised target P/E of 25x FY25E EPS.**

FY24E Volume Impact on new ERP system; FY25 to See Healthy Growth

Prince's volumes grew by 13% YoY in FY23, however FY24 volume would be impacted due to major challenge arise from implementation of new ERP system in 1QFY24, while FY25 would witness healthy growth. Therefore, we expect 7% and 11.5% volume growth in FY24E and FY25E respectively. Continued focus on brand building, network expansion and addition of new products would support growth FY26 onwards with additional capacity coming from Eastern region. Agri business has been witnessing healthy traction recently led by lower PVC prices and rural sentiment improving. Various initiatives by government in terms of higher capex outlay, more spending in rural schemes and higher infra activities provides significant opportunities for PVC Pipe sector in the coming years. We expect losses to narrow down in bath-ware segment and healthy pick up in tank business. This coupled with better volumes from pipes and increasing contribution of high margin CPVC would lead to margin expansion. Therefore, we expect its EBITDA margin to improve from 9.2% (impacted by inventory loss of Rs1.25bn) in FY23 to 15.5% in FY25E.

Outlook & Valuation

The government's thrust on Jal Jeevan Mission, PMAY enhancement of agricultural credit and increased allocation for rural infra development funds, augur well for the domestic PVC pipe manufacturers. The company is likely to deliver a healthy volume, led by healthy growth in agri and plumbing segments, and improved operating efficiency and cost optimization measures. It has made a series of strategies to embark on its journey to the next level and sustain business in the long run, with a tie-up with Lubrizol and Tooling Holland. We expect the company's Revenue/EBITDA/PAT to clock a CAGR of 11%/44%/60% over FY23-FY25E. The stock is currently trading at 27x/21.8x FY24E/FY25E EPS. We maintain our BUY rating on the stock, with a revised Target Price of Rs700, valuing the stock at an unrevised target P/E of 25x FY25E earnings.

Key Financials

Y/E Mar (Rs mn)	FY21E	FY22	FY23	FY24E	FY25E
Sales	20,715	26,568	27,109	29,296	33,495
EBITDA	3,616	4,156	2,503	4,290	5,178
EBITDA Margin (%)	17.5	15.6	9.2	14.6	15.5
Net profit	2,218	2,494	1,214	2,503	3,098
EPS (Rs)	20.2	22.6	11.0	22.6	28.0
P/E (x)	30.3	27.1	55.6	27.0	21.8
P/B (x)	6.4	5.3	4.9	4.2	3.6
EV/EBITDA (x)	18.2	16.5	26.7	15.2	12.3
ROE (%)	23.4	21.3	9.2	16.8	17.7

Source: RSec Research

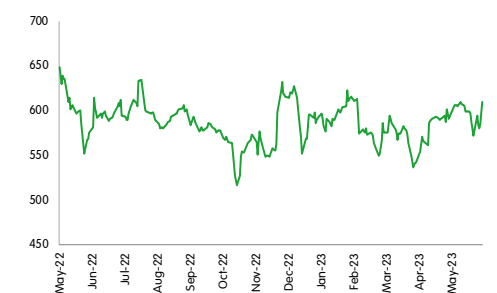
Recos/View	Old	Revised	Change
Recos	BUY	BUY	↔
Price Target (Rs)	725	700	↓
↑ Upgrade ↔ Maintain ↓ Downgrade			

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	1.5	9.3	(2.4)
Relative to Nifty	(1.8)	2.9	(15.5)

Shareholding Pattern (%)	Dec-22	Mar-23
Promoter	60.9	60.9
Public	39.1	39.1

Change of Estimates (% change)	FY24E	FY25E
Net Revenues	(8.2)	(7.4)
EBITDA	(3.2)	(1.3)
EBITDA Margin (%)	76bps	96bps
Net profit	(4.5)	(3.5)

1 Year Stock Price Performance



Note: * CMP as on May 26, 2023

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Quarterly Performance YE Mar (Rs mn)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ(%)	RSec - Est	Deviation from our est. (%)
Total Revenue	7,644	9,012	(15.2)	7,059	8.3	7,390	3.4
Less:							
Net Raw Material consumed	5,121	6,551	(21.8)	5,483	(6.6)		
Other Expenses	731	705	3.6	570	28.2		
Personnel	309	351	(12.0)	311	(0.7)		
Total Expenditure	6,161	7,607	(19.0)	6,364	(3.2)		
EBIDTA	1,483	1,405	5.6	695	113.5	997	48.8
Less: Depreciation	211	199	6.2	211	0.4		
EBIT	1,272	1,206	5.5	484	162.7		
Less: Interest	28	40	(29.9)	16	74.4		
Add: Other income	34	1	3,320.0	12	180.3		
Profit Before Tax	1,278	1,167	9.5	480	166.1	786	62.5
Less: Total Tax	337	284	18.4	126	166.6		
Profit After Tax	941	882	6.7	354	165.9	586	60.6
Adj. PAT	941	882	6.7	354	165.9	586	60.6
Reported EPS (Rs.)	8.51	7.98	6.7	3.20	165.9		
Adj. EPS (Rs.)	8.51	7.98	6.7	3.20	165.9		
Margin Analysis (%)			Change in bps			Change in bps	Change in bps
EBIDTA Margin	19.4	15.6	382	9.8	956	13.5	592
Adj. NPM	12.3	9.8	252	5.0	730	7.9	438
Effective Tax Rate	26.4	24.4	197	26.3	5		
Cost Analysis (%)							
RM/Sales	67.0	72.7	(570)	77.7	(1,068)		
Other Expenses/Sales	9.6	7.8	174	8.1	148		
Personnel/Sales	4.0	3.9	15	4.4	(36)		

Source: Company, RSec Research

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Conference Call – Key Takeaways

- **Business Scenario:** The company witnessed muted volume and revenue YoY during 4QFY23. Volume during the quarter stood at 44,317MT as against 45,287MT in the previous year. EBITDA margin improved 380bps YoY/955bps QoQ, primarily on account of lower RM cost and inventory gain of Rs250mn. The management has guided for an EBITDA margin of 13-15% for FY24 and onwards. The management said that while Agri demand remains strong across all regions, the focus will be on building Materials and infrastructure as well. Moreover, the company will migrate to a global ERP system in Q1FY24 and this transitioning might affect its performance during the quarter.
- **PVC & CPVC:** Pricing pressure on PVC was the primary concern which impacted the overall performance during FY23 until Nov'22. There was a steep correction of ~Rs66/Kg from Apr'22 to Nov'22. PVC prices witnessed an upward trend in Dec'22. Prices have recovered by ~Rs11/Kg in Mar'23. The management mentioned that CPVC prices have remained stable and demand for CPVC products have been good. Its overall market share would be ~5-6%, while CPVC market share would be ~10% and CPVC contribution would be ~25%.
- **Bath-ware & Storage Tank:** The Bathware segment is expected to start contributing from 1QFY24 with strong ramp up through FY24. Designs and vendors have been finalised and a complete range of Bathware products is expected soon. The segment reported an annual cash-loss of Rs150mn in FY23. Storage Tanks continue their upward momentum with a positive response from the market. Storage Tanks recorded revenues of ~Rs300mn in FY23 and the company expects to double the sales in FY24 with operating margins in the range of 12-14%.
- **New Product Launches:** Prince has launched a new product named "WireFit" primarily for home and workplaces with heat deflection mechanism, chemical resistance and good impact strength. The company also launched "OneFit" in collaboration with Lubrizol which is the world's largest manufacturer of CPVC products. The product is highly resistant to corrosion and suitable for industrial applications.
- **Inventory:** The management said that channel inventory is currently lower due to high demand in end products. For FY23, the company incurred an inventory loss of ~1.25bn.
- **Capex:** The company aims to strengthen its position in the East region with a planned capacity addition of 35,000MT in Bihar with an estimated cost of ~Rs1.5bn. The plant is expected to be operational by 4QFY25. For FY24 the management has guided a capex of Rs750-800mn for expansion in the East region in addition to maintenance capex in the range of Rs800-850mn, taking total capex to Rs1.5bn.
- **Cash & Debt:** The company remains debt free on long-term basis. Short term debt declined from Rs1.5bn in Mar'22 to Rs580mn in Mar'23. Cash balance stood at Rs1.58bn at the end of the year.

Key Risks

- Demand slowdown
- Higher raw material prices
- Failure of CPVC business to achieve desired market share gains post tie-up with Lubrizol
- Slower economic recovery

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Estimate Change & Revision in Target Price

We are positive on Prince's growth prospects as the company is expanding its presence with the manufacturing expertise, leveraged distribution and competitive agility in the pipes sector. New ERP system and decentralization of manufacturing footprint will aid in reducing trade costs. Opportunities in the infrastructure and real estate pipes segments are imminent and are picking up with the government's strong emphasis on infrastructure creation, which augurs well for the company. Considering the impact of new ERP system implementation on volumes in FY24 and lower realisation, we decrease our revenue estimates by 8%/7% for FY24E/FY25E. However, considering falling RM cost, we increase our EBITDA margins by 76bps/96bps to 14.6%/15.5% for FY24E/FY25E. Management remains conservative in its EBITDA margin guidance to 13-15% on a long-term basis. Therefore, we decrease our EBITDA estimates by just 3%/1% for FY24E/FY25E. Accordingly, we lower our PAT estimates by 5%/4% for FY24E/FY25E. **Considering expected volume pick-up, cost optimization measures, strategies for healthy growth and valuation comfort, we maintain our BUY rating on the stock, with a revised Target Price of Rs700 (vs. earlier Rs725), valuing the stock at an unrevised target P/E of 25x FY25E EPS.**

Revised vs. Old Estimates

Y/E Mar (Rs mn)	Old		Revised		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Revenues	31,913	36,157.0	29,296	33,495	(8.2)	(7.4)
EBITDA	4,431	5,245.0	4,290	5,178	(3.2)	(1.3)
EBITDA Margin (%)	13.9	14.5	14.6	15.5	76bps	96bps
Net profit	2,622	3,210.0	2,503	3,098	(4.5)	(3.5)

Source: RSec Research

ESG Analysis

Analyzing PRNCPIP on 20 key criteria under ESG Matrix, we have assigned an overall score of 57% to the company. Under **"Environmental Head"**, we have assigned 57% score, as it has strong exposure to reality sector and hence impact on overall biodiversity is material. Although the company deals in plastic polymers, all its products are 100% recyclable. Under **"Social Head"**, we have assigned 50% score, as the company scores poor on CSR and gender diversity front. Under **"Governance Head"**, we have assigned 63% score to PRNCPIP owing to good performance across criteria.

For detailed report on our ESG analysis of PRNCPIP, please click here [\(please refer to page no.61-62 for detailed ESG analysis\)](#).

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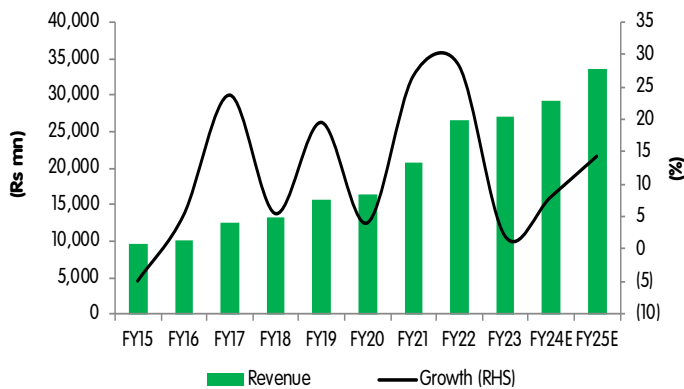
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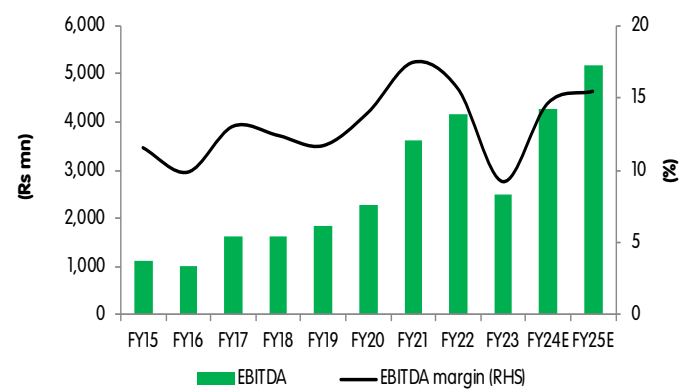
BUY 

Target Price: Rs700

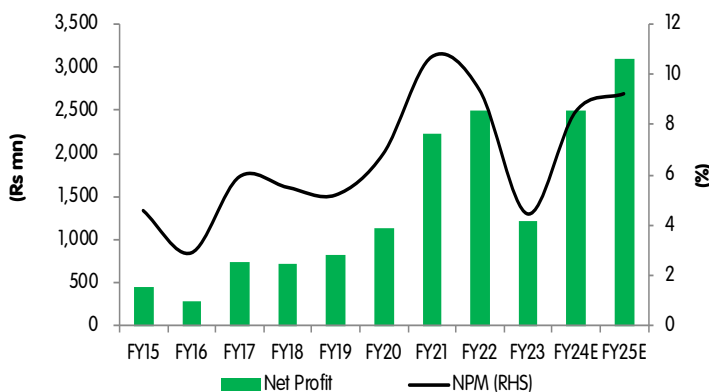
Key Charts

Exhibit 1: Revenue Trend


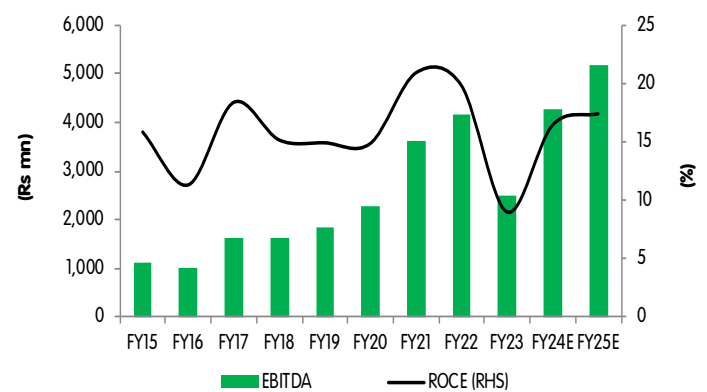
Source: Company, RSec Research

Exhibit 2: EBITDA and Margin


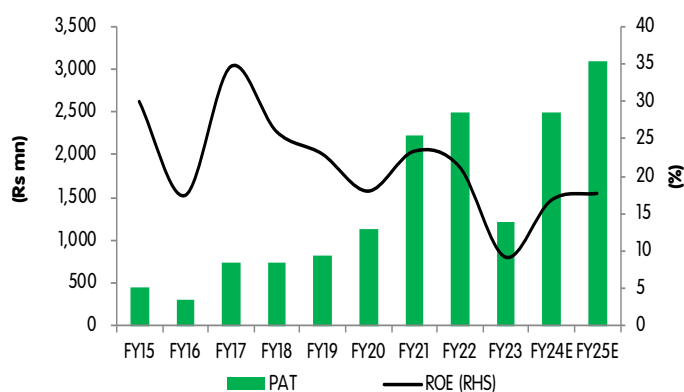
Source: Company, RSec Research

Exhibit 3: Net Profit & NPM


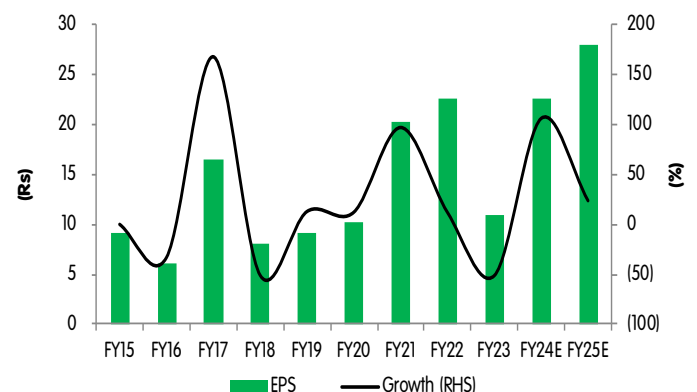
Source: Company, RSec Research

Exhibit 4: EBITDA and ROCE


Source: Company, RSec Research

Exhibit 5: PAT and ROE


Source: Company, RSec Research

Exhibit 6: EPS Trend


Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net revenue	20,715	26,568	27,109	29,296	33,495
Growth (%)	26.6	28.3	2.0	8.1	14.3
Expenditure	17,099	22,412	24,606	25,007	28,316
Raw Materials	13,789	18,915	20,922	21,093	23,949
Employee Expenses	997	1,162	1,160	1,277	1,353
Other expenditure	2,313	2,335	2,523	2,637	3,015
EBITDA	3,616	4,156	2,503	4,290	5,178
Growth (%)	58.1	14.9	(39.8)	71.4	20.7
EBITDA Margin (%)	17.5	15.6	9.2	14.6	15.5
Depreciation and amortization expense	594	703	830	945	1,068
EBIT	3,022	3,453	1,673	3,345	4,111
Growth (%)	70.9	14.3	(51.6)	100.0	22.9
EBIT Margin (%)	14.6	13.0	6.2	11.4	12.3
Non-operating income	176	55	86	87	112
Interest including finance charges	207	139	110	95	92
PBT	2,991	3,369	1,648	3,337	4,130
Growth (%)	98.7	12.6	(51.1)	102.5	23.8
Less: taxes	773	875	434	834	1,033
Tax Rate (%)	25.8	26.0	26.3	25.0	25.0
Adjusted PAT	2,218	2,494	1,214	2,503	3,098
Growth (%)	97.2	12.4	(51.3)	106.2	23.8
Net Margin (%)	10.7	9.4	4.5	8.5	9.2
Reported PAT	2,218	2,494	1,214	2,503	3,098
Fully diluted EPS	20.2	22.6	11.0	22.6	28.0
Fully diluted shares outstanding (mn)	110	111	111	111	111

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,100	1,106	1,106	1,106	1,106
Reserves and surplus	9,335	11,547	12,534	14,816	17,693
Total equity	10,435	12,653	13,640	15,922	18,798
Deferred tax liability (net)	133	123	137	137	137
Total borrowings	880	1,519	629	566	509
Current liabilities	4,380	5,096	4,137	4,407	4,910
Total liabilities	15,829	19,390	18,542	21,031	24,354
Cash and cash equivalents	2,299	586	1,244	2,646	4,261
Inventory	2,273	6,188	4,256	4,453	5,043
Trade receivables	3,308	4,346	4,150	4,415	5,047
Total current assets	7,881	11,121	9,651	11,514	14,351
Gross block	7,008	9,102	10,085	11,520	13,020
Less: depreciation and amortization	2,029	2,671	3,290	4,235	5,302
Add: capital work-in-process	765	226	235	300	300
Total fixed assets	5,745	6,656	7,030	7,586	8,018
Investments	15	117	920	966	1,014
Other assets	2,189	1,497	940	966	971
Total assets	15,829	19,390	18,541	21,031	24,354

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Cash Flow Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Operating cashflow					
Pre-tax income	2,992	3,369	1,648	3,337	4,130
Add: depreciation and amortization	594	703	830	945	1,068
Add: interest expense (net)	23	77	55	95	92
Less: other adjustments	85	146	(4)	-	-
Less: taxes paid	(646)	(960)	(401)	(834)	(1,033)
Add: working capital changes	(127)	(3,530)	1,473	(215)	(723)
Total operating cashflow	2,920	(195)	3,602	3,327	3,534
Investing cashflow					
Capital expenditure	(1,052)	(1,740)	(998)	(1,500)	(1,500)
Investments	-	-	-	(46)	(48)
Others	355	1,945	(483)	(1)	(1)
Total investing cashflow	(697)	205	(1,481)	(1,547)	(1,549)
Financing cashflow					
Share issuances	-	107	-	-	-
Loans	(1,761)	639	(891)	(63)	(57)
Dividend	(165)	(385)	(221)	(221)	(221)
Interest Payment	(207)	(139)	(107)	(95)	(92)
Less: Others	2,209	270	(244)	-	-
Total financing cashflow	76	492	(1,463)	(378)	(370)
Net change in cash	2,299	502	658	1,402	1,615
Opening cash	1	84	586	1,244	2,646
Closing cash	2,299	586	1,244	2,646	4,261

Key Ratio

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Growth Ratios (%)					
Net revenue	26.6	28.3	2.0	8.1	14.3
EBITDA	58.1	14.9	(39.8)	71.4	20.7
Adjusted net profit	97.2	12.4	(51.3)	106.2	23.8
Other Ratios (%)					
Effective tax rate	25.8	26.0	26.3	25.0	25.0
EBITDA margin	17.5	15.6	9.2	14.6	15.5
Adjusted net income margin	10.7	9.4	4.5	8.5	9.2
ROaCE	21.0	19.9	9.0	16.5	17.5
ROaE	23.4	21.3	9.2	16.8	17.7
Total asset turnover ratio (x)	1.4	1.5	1.4	1.5	1.5
Inventory days	40	85	57	55	55
Debtor days	58	60	56	55	55
Creditor days	55	55	43	43	42
Per share numbers (Rs)					
Diluted earnings	20.2	22.6	11.0	22.6	28.0
Free cash	17.0	(17.5)	23.6	16.5	18.4
Book value	94.8	114.5	123.4	144.0	170.0
Valuations (x)					
P/E	30.3	27.1	55.6	27.0	21.8
EV/EBITDA	18.2	16.5	26.7	15.2	12.3
P/B	6.4	5.3	4.9	4.2	3.6

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	≥10%
HOLD	0% to <10%
SELL	<0%

Rating History

Date	Reco	CMP	TP
09-Feb-23	BUY	595	725
10-Nov-22	BUY	574	700
10-Aug-22	BUY	608	700
20-May-22	BUY	633	780
04-Feb-22	BUY	711	1,000
03-Nov-21	BUY	754	1,000
28-Apr-21	BUY	488	710
31-Aug-20	BUY	197	230
21-Jul-20	BUY	108	160

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