

Prince Pipes & Fittings Ltd

EBITDA/kg surprises but Volume underperformance continues!

Result Synopsis

Prince Pipes & Fittings Ltd (PP&F) registered volumes of 41,529Te, a growth of 8%YoY & 12%QoQ (2-year/4-year CAGR came in at -2%/5% respectively). ASP improved to Rs158/Kg sequentially due to better product mix. Consequently, EBITDA/Kg expanded to Rs22.7 (incl inventory gain of Rs50Mn) as against 12.2 in previous quarter & EBITDA loss reported in Q2FY23 owing to sharp decline in PVC resin prices which lead to inventory losses. Management reiterated that they would achieve industry-level volume growth from here on & EBITDA margins will be ~12-14%. PP&F's East plant's capex is going as per schedule wherein company is setting up capacity of 35,000Te in phase-1 to cater the growing demand in eastern region.

In sanitaryware & faucets, company is currently focusing on North & West region & will launch in eastern region by Q4FY24. Company eyes a turnover of Rs80Mn in Dec'23 quarter. Fixed cost of this segment is ~Rs60Mn wherein Rs35Mn is for branding & Rs15Mn is for employee cost.

We believe with healthy industry tailwinds; PP&F is likely to register volume growth of 15%CAGR over FY23-FY25E & with improvement in product mix we expect ASP to improve from the levels of H1FY24. We expect Revenue of pipes to grow by 13%CAGR over FY23-FY25E. Moreover, with ramp-up in recently launched Sanitaryware & Faucets biz, we reckon that revenues should accelerate further. At CMP, the stock trades at P/E(x) of 38x/28x on FY24/FY25E EPS of Rs19/26 respectively. We continue to value the company at P/E(x) of 30x on FY25E EPS & maintain our target price of Rs787 with an ADD rating.

Result Highlights

- Volumes stood at 41,529Te, a growth of 8%YoY & 12%QoQ (2-year CAGR stood at -2%).
- ASP came in at Rs158 Vs Rs165/Rs149 in Q2FY23/Q1FY24 respectively.
- Revenue stood at Rs6.56Bn, a growth of 3%YoY & 18.6%QoQ.
- EBITDA/Kg came in at Rs22.7 as compared to Rs12 in previous quarter & EBITDA loss in Q2FY23 owing to sharp reduction in resin prices.
- Net profit (excl exceptional gains) came in at Rs527Mn Vs loss of Rs241Mn in Q2FY23.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,565	6,423	6,720	2.2	(2.3)	
EBITDA	942	680	830	38.6	13.5	
EBITDA Margin (%)	14.3	10.6	12.4	377 bps	200 bps	Revenue was in-line with estimates, beat on margin front.
Adjusted PAT	527	361	480	45.9	9.9	

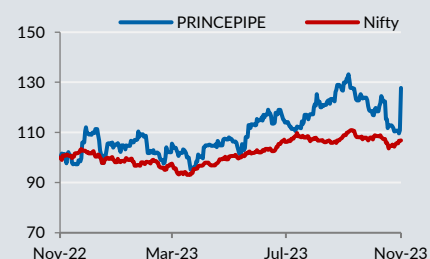
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 721
Target Price	: Rs 787
Potential Upside	: +10%

Stock data (as on Nov 8, 2023)

Nifty	19,444
52 Week h/l (Rs)	760 / 510
Market cap (Rs/USD mn)	69123 / 830
Outstanding Shares (mn)	111
6m Avg t/o (Rs mn):	144
Div yield (%):	-
Bloomberg code:	PRNCPIPI
NSE code:	PRINCEPI

Stock performance



	1M	3M	1Y
Absolute return	7.8%	5.3%	27.7%

Shareholding pattern (As of Sep'23 end)

Promoter	60.9%
FII+DII	23.6%
Others	15.5%

Δ in stance

	New	Old
Rating	ADD	ADD
Target Price	787	787

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	19.1	26.2	31.0
EPS (Old)	18.8	23.5	-
% change	1.4%	11.4%	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	28,019	34,913	41,974
YoY Growth	3.4	24.6	20.2
EBITDA	3,686	4,797	5,517
EBITDA (%)	13.2	13.7	13.1
PAT	2,107	2,895	3,422
YoY Growth	73.2	37.4	18.2
ROE	14.5	17.4	17.7
EPS	19.1	26.2	31.0
P/E	37.8	27.5	23.3
BV/Share	138.9	161.6	189.1
P/BV	5.2	4.5	3.8

UDIT GAJIWALA

Lead Analyst

udit.gajiwala@ysil.in



VICKY WAGHWANI, Associate

Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Revenue	6,040	6,364	7,059	7,644	5,536	6,565	3.2	18.6	12,404	12,100	(2.5)
Expenditure	5,601	6,477	6,363	6,161	5,083	5,623	(13.2)	10.6	12,078	10,706	(11.4)
- RM	4,784	5,532	5,483	5,121	4,143	4,511	(18.5)	8.9	10,316	8,654	(16.1)
- Staff Cost	262	278	311	309	320	405	45.5	26.4	540	725	34.2
- Other cost	555	667	569	731	620	707	6.0	14.1	1,222	1,327	8.6
Operating Profit	439	(113)	696	1,483	453	942	(931.3)	108.1	326	1,394	328.1
OPM(%)	7.3	(1.8)	9.9	19.4	8.2	14.3	1613 bps	617 bps	2.6	11.5	890 bps
Other Income	12	27	12	34	38	40	48.1	4.3	39	77	100.1
Depreciation	197	212	211	211	218	225	6.5	3.3	408	443	8.6
Interest	33	32	16	28	17	7	(78.4)	(60.3)	65	24	(62.6)
Exceptional Gain/ (Loss)	-	-	-	-	-	179	-	-	-	179	-
PBT	221	(330)	481	1,278	255	928	(381.2)	264.2	(109)	1,183	(1,188.4)
Tax	60	(90)	126	337	59	222	(347.9)	274.1	(29)	281	(1,059.5)
PAT	161	(241)	355	941	196	707	(393.6)	261.2	(79)	902	(1,236.0)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Revenue (Rs Mn)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Volumes	31,250	38,458	43,693	44,317	37,155	41,529	8.0	11.8	69,708	78,684	12.9
Realization (Rs/Kg)	193	165	162	172	149	158	(4.5)	6.1	178	154	(13.6)
EBITDA/Kg	14	(3)	16	33	12	23	(869.8)	86.2	5	18	279.3

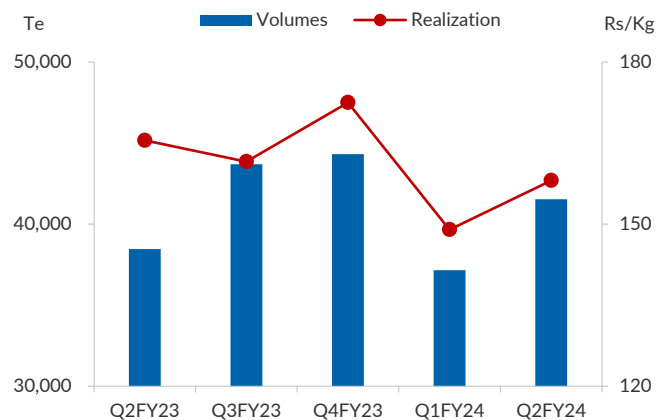
Source: Company, YES Sec

KEY HIGHLIGHTS FROM CONCALL

- Company is confident on medium-long term growth owing to healthy industry tailwinds in terms of strong uptick in new home construction & higher infra spends.
- Management believes that volume growth was lower Vs peers due to capacity constraints in HDPE pipes & aggressive pricing by peers.
- During the quarter there was inventory gains of ~Rs50Mn.
- In Oct'23 due to decline in prices, dealers resorted to de-stocking & deferred purchases to Sept'23. With improvement in prices, the re-stocking has commenced.
- Bathware: Company has received encouraging response from dealers & customers. PP&F plans to expand presence in Tier-II&III Cities in North & West. Further they plan to expand in east by Q4FY24.
- For bathware biz, company expects revenue of Rs80Mn in Dec'23 quarter. Fixed cost would be ~Rs60Mn, wherein Rs35Mn is for branding & Rs15Mn is for employee cost.
- Bihar capex is going as per schedule wherein company plans to establish capacity of 35,000Te. 5-years from here, this plant will become one of the largest capacity plants for the company.
- Capex for FY24 will be Rs800-1,000Mn (excl Bihar capex). The capex at Bihar over next 2-years in Phase-I will be Rs1.5Bn.
- For resins, company believes prices should largely remain range-bound from hereon.
- Advertisement cost stood at Rs150Mn (7% of sales).
- Channel finance for Q2FY24 stood at Rs1.26Bn Vs Rs1.05Bn in previous quarter.
- Overall capacity utilization for the quarter was at 50% and the same for Telangana plant stood at 40%.
- Inventory/Debtors/Creditor days stood at 62/63/59 respectively. Management expects debtors' days to improve to mid-40s by next fiscal.
- Fitting's sales which were disrupted in Q1FY24 have now normalized which is reflective in Q2FY24's performance.
- HDPE is currently less than 3% which is likely to expand to 7-8% post expansion.
- CPVC constitutes ~20-25% of revenue.

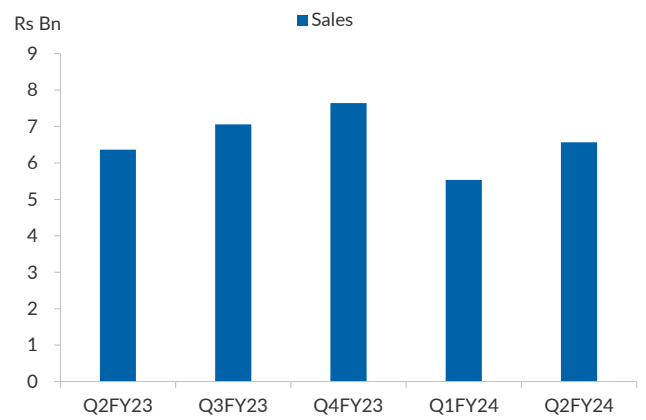
QUARTERLY TRENDS

Exhibit 4: Volume was up by 8%YoY...



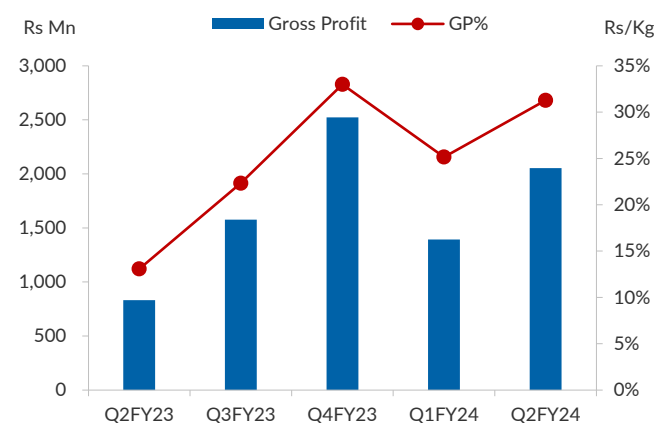
Source: Company, YES Sec

Exhibit 5: Revenue increased by 3%YoY...



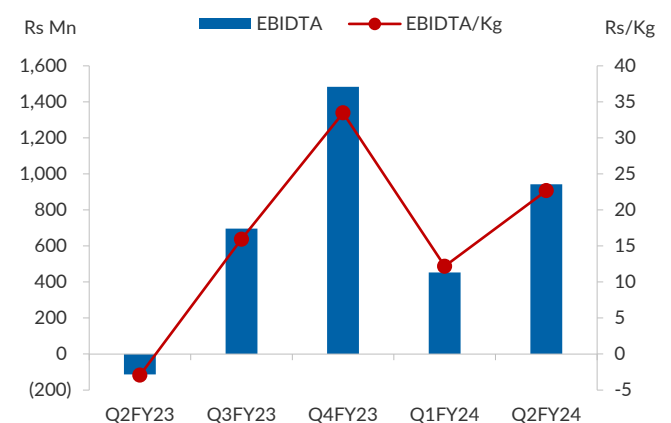
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Exhibit 6: Gross margin improved to 31%...



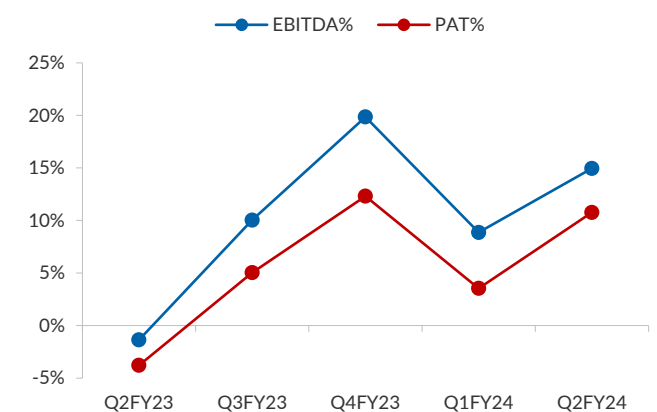
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Exhibit 7: EBITDA/kg improved to Rs23...



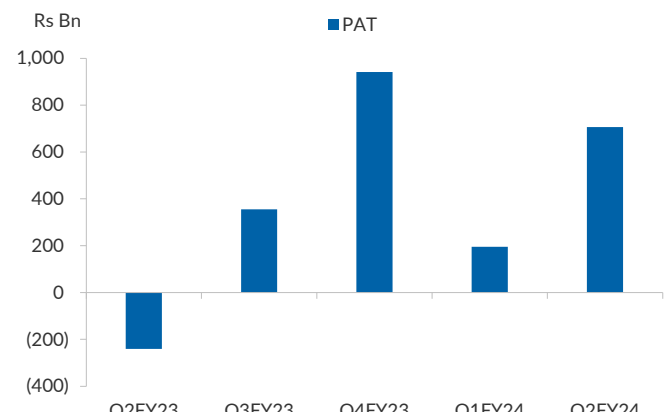
Source: Company, YES Sec

Exhibit 8: Margins have improved...



Source: Company, YES Sec

Exhibit 9: Net profit stood at Rs707mn...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sales	26,568	27,107	28,019	34,913	41,974
COGS	18,915	20,920	20,306	25,712	31,640
GP	7,653	6,187	7,713	9,201	10,334
GP%	28.8	22.8	27.5	26.4	24.6
Employee	1,162	1,160	1,253	1,353	1,461
Other cost	2,335	2,522	2,774	3,051	3,357
EBITDA	4,156	2,505	3,686	4,797	5,517
EBITDA%	15.6	9.2	13.2	13.7	13.1
Finance cost	139	109	58	58	58
Depreciation	703	830	918	986	1,054
Other Income	55	85	100	106	158
PBT	3,369	1,650	2,810	3,860	4,563
Tax	875	434	702	965	1,141
PAT	2,494	1,217	2,107	2,895	3,422
PAT%	9.4	4.5	7.5	8.3	8.2
EPS	22.6	11.0	19.1	26.2	31.0

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1,106	1,106	1,106	1,106	1,106
Reserves	11,547	12,534	14,254	16,762	19,798
Non-current liab	255	305	274	274	274
Borrowings	1,500	581	581	581	581
Payables	3,985	3,202	2,966	3,756	4,621
Other current Liab	959	778	778	778	778
Total Equity & Liab	19,392	18,542	19,995	23,293	27,194
Gross Block	9,232	10,397	11,197	11,997	12,797
Acc Dep	2,817	3,647	4,565	5,550	6,604
Net Block	6,415	6,750	6,632	6,446	6,193
CWIP	225	190	990	1,690	2,390
Other Noncurrent	440	249	249	249	249
Inventory	6,188	4,256	5,069	6,418	7,898
Receivables	4,346	4,150	4,391	5,471	6,578
Cash & Bank	591	1,244	962	1,315	2,184
Loans	5	5	5	5	5
Total Assets	19,392	18,542	19,995	23,293	27,194

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,369	1,648	2,810	3,860	4,563
Depreciation & Amortization	703	830	918	986	1,054
Finance cost	78	55	58	58	58
(Incr)/Decr in Working Capital	(3,531)	1,473	(1,289)	(1,640)	(1,720)
Taxes	(960)	(401)	(702)	(965)	(1,141)
Cash from ops.	(195)	3,602	1,794	2,298	2,814
(Incr)/ Decr in PP&E	(1,692)	(1,007)	(1,600)	(1,500)	(1,500)
Cash Flow from Investing	205	(1,481)	(1,600)	(1,500)	(1,500)
(Decr)/Incr in Borrowings	647	(919)	(31)	-	-
Finance cost	(110)	(99)	(58)	(58)	(58)
Cash Flow from Financing	221	(1,222)	(476)	(445)	(445)
Incr/(Decr) in cash	231	899	(282)	353	869
Cash and cash equivalents at beginning of year	84	316	1,244	962	1,315
Cash and cash equivalents at end of year	315	1,215	962	1,315	2,184

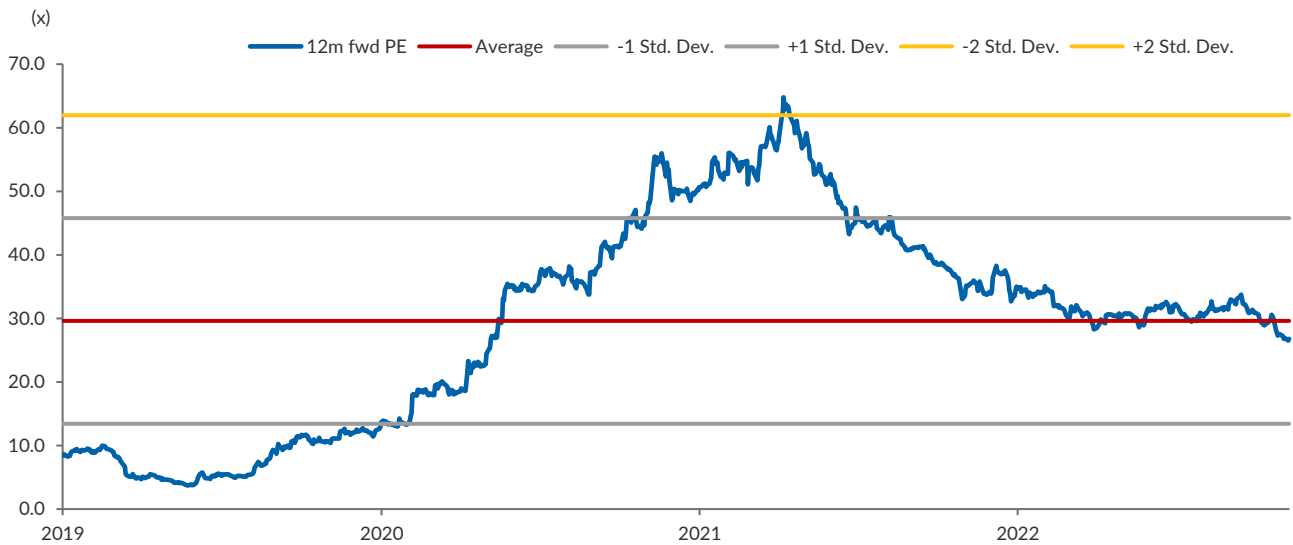
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Total Sales	28.3	2.0	3.4	24.6	20.2
EBIDTA	14.9	(39.7)	47.1	30.1	15.0
EBIT	9.7	(49.8)	63.0	36.6	18.0
PAT	12.4	(51.2)	73.2	37.4	18.2
Profitability (%)					
GP Margin	28.8	22.8	27.5	26.4	24.6
EBIDTA Margins	15.6	9.2	13.2	13.7	13.1
EBIT Margins	13.2	6.5	10.2	11.2	11.0
PAT Margins	9.4	4.5	7.5	8.3	8.2
ROCE	29.5	13.1	19.4	23.2	23.5
ROE	21.6	9.3	14.5	17.4	17.7
Per Share Data (Rs)					
EPS	22.6	11.0	19.1	26.2	31.0
CEPS	28.9	18.5	27.4	35.1	40.5
BVPS	114.4	123.4	138.9	161.6	189.1
Valuations (x)					
P/E (x)	25.4	54.6	37.8	27.5	23.3
P/CEPS (x)	19.8	32.4	26.4	20.5	17.8
P/BV (x)	5.0	4.9	5.2	4.5	3.8
EV/EBIDTA	15.5	26.2	21.5	16.5	14.2
Gearing Ratios					
Debt/ Equity	0.1	0.0	0.0	0.0	0.0
Net Debt/Equity	0.1	(0.0)	(0.0)	(0.0)	(0.1)
Net Debt/EBIDTA	0.2	(0.3)	(0.1)	(0.2)	(0.3)
Int Coverage	25.2	16.1	49.3	67.4	79.5
WCC Days					
Debtors	54	57	57	57	57
Inventory	82	91	91	91	91
Creditors	53	53	53	53	53

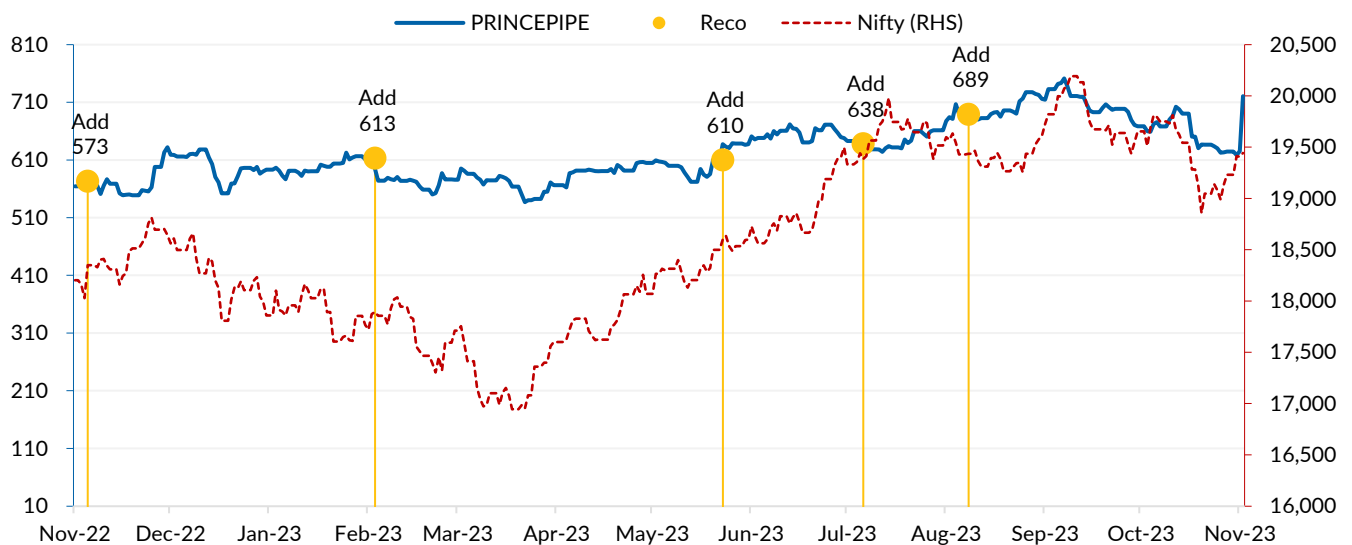
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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