AXIS CAPITAL

Prince Pipes and Fittings

Volume rebound critical for stock performance

Building Products | Initiating Coverage | January 17, 2024

REDUCE

Current Price (Rs)	: 704
Target Price (Rs)	: 725
Potential Upside	: 3%

Market Data

No. of shares	: 111 mn
Free Float	: 39.1%
Market Cap (USD)	: 936 mn
52-week High/ Low (Rs)	: 776/ 533
Avg. Daily Volume (6M)	: 0.69 mn
Avg. Daily Value (6M;USD)	: 5.85 mn
Bloomberg Code	: PRINCPIP IB
Promoters Holding	: 60.9%
FII / DII	: 5% / 16%

Price Performance

(%)	1M	3M	12M
Absolute	(0.2)	2.6	20.8
Relative	(2.5)	(8.0)	(0.8)

Source: Bloomberg

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Prince Pipes is the fifth-largest plastic pipes player in India. Its focus on driving growth in retail, continued momentum from projects, and the low base of FY24E make a plausible case for volume uptick FY25E onward (expect 15% volume CAGR over FY24-26E). However, we believe continued volume growth underperformance vs peers in Q3FY24E (Prince Pipes at -2% YoY; Astral and Supreme at 15-17% YoY) will force consensus to cut estimates. We await improvement in volume growth to turn positive on the stock and initiate with a **REDUCE** rating. We expect a 19% PAT growth over FY24-26E with an average RoE of 13.9%. We value the stock at Rs 725, 30x FY26E EPS, in line with the 1-year-forward mean P/E.

Industry growth led by government infra capex and real estate upcycle

India's plastic pipe industry (~Rs 540 bn in FY23) is expected to see a 10-12% CAGR over FY23-26E. This will be driven by the government's infrastructure upgrade-related capex (Jal Jeevan mission, expansion of railways, roads, airports, irrigation) and the real estate upcycle. Hence, players with higher revenue share from government contractors and real estate builders are best placed to benefit from demand growth.

Projects growth to continue; we await retail growth revival

Prince Pipes saw an 18% revenue CAGR over FY20-23, led by ~50% CAGR in projects (~25% of revenue) and 13% in retail (~75% of revenue). We are confident of high-double-digit revenue CAGR in projects over FY24-26E, while retail, constituting a larger share of revenue, needs to show revenue and volume revival. A focus team has been formed with the objective of assessing and addressing the gaps in various retail micro-markets.

Expect 19% EPS CAGR over FY24-26E

We expect Prince Pipes to see a 15% volume CAGR and a 14% revenue CAGR over FY24-26E, leading to a 150 bps EBITDA margin expansion (operating leverage benefits and product-mix improvement) to 13.8%. EBITDA/kg will improve from Rs 18.3 in FY24E to Rs 20.2 in FY26E, resulting in an EBITDA CAGR of 21% and a PAT CAGR of 19% over FY24-26E. We expect Prince Pipes to deliver an average RoE of 13.9% over this period.

Key risks

Upside risks: (1) Volume growth surprise, led by sooner-than-expected revival in the retail segment; and (2) inventory gains from sharp rise in raw material prices. Downside risk: (1) dependence on a single supplier for CPVC resin; and (2) increased competition.

Financial summary (Consolidated)

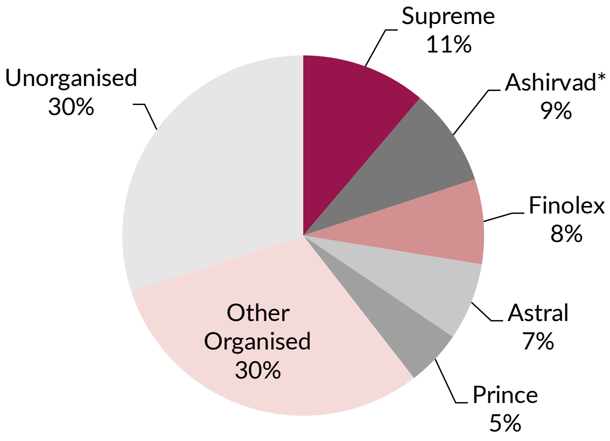
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Sales (Rs mn)	26,498	27,034	25,563	28,919	33,195
EBITDA (Rs mn)	4,156	2,503	3,154	3,839	4,593
Adj. PAT (Rs mn)	2,494	1,214	1,729	2,188	2,678
Con. EPS* (Rs)	-	-	19.1	25.6	30.1
EPS (Rs)	22.6	11.0	17.3	19.8	24.2
Change YoY (%)	12	(51)	42	27	22
Previous EPS (Rs)	-	-	-	-	-
RoE (%)	21.6	9.2	12.0	13.6	14.8
RoCE (%)	26.7	11.8	15.0	17.1	18.5
P/E (x)	31.2	64.1	45.0	35.6	29.1
EV/E (x)	18.9	30.8	24.4	20.3	16.9

Source: *Consensus broker estimates, Company, Axis Capital

Table of Contents

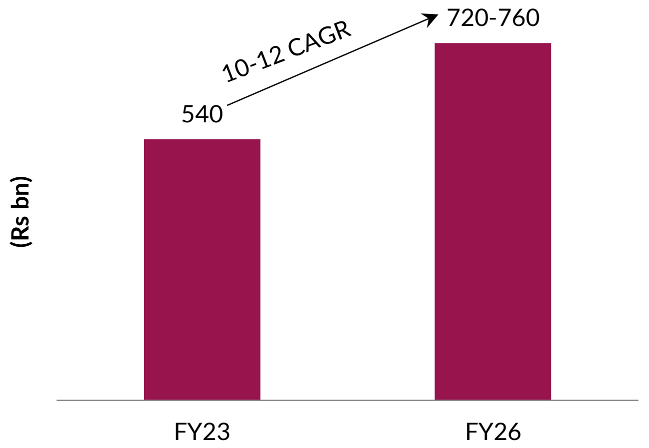
Key Charts

Exhibit 1: India plastic pipe industry – market share (FY23)



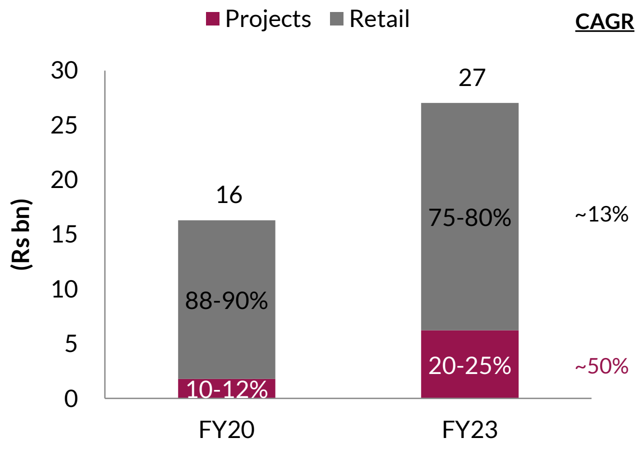
Source: Industry, Axis Capital

Exhibit 2: India plastic pipe industry – market size and growth



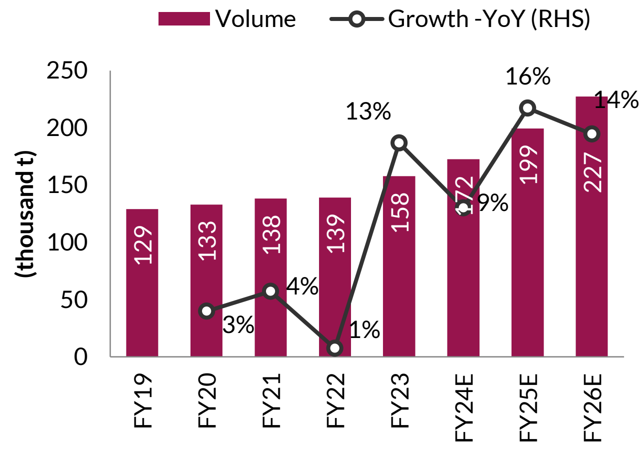
Source: Industry, Axis Capital

Exhibit 3: Prince Pipes – revenue mix by consumer segment



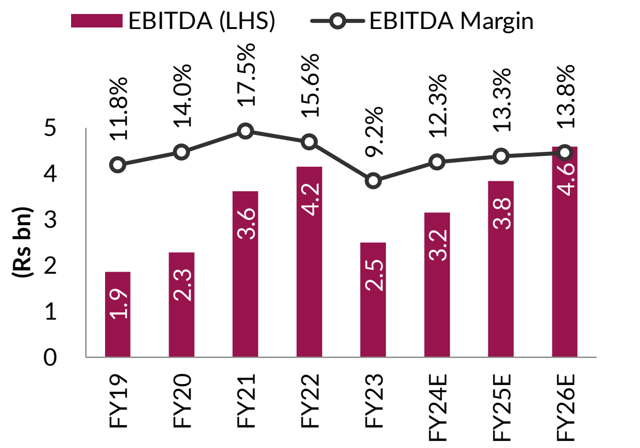
Source: Company, Axis Capital

Exhibit 4: Prince Pipes – volume growth trend



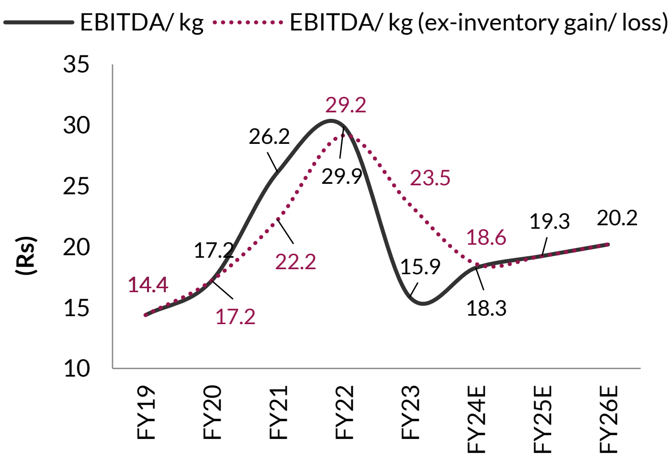
Source: Company, Axis Capital

Exhibit 5: Prince Pipes – EBITDA and EBITDA margin trend



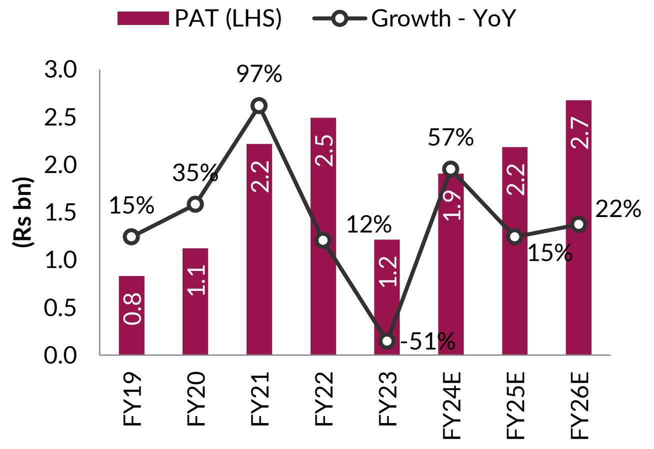
Source: Company, Axis Capital

Exhibit 6: Prince Pipes – EBITDA/kg trend



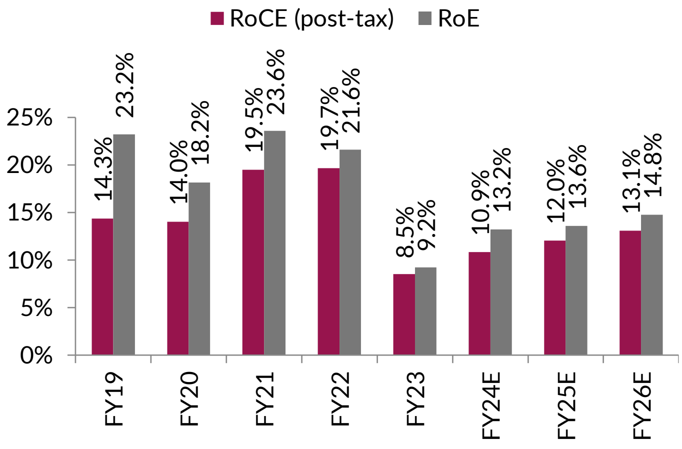
Source: Company, Axis Capital

Exhibit 7: Prince Pipes – PAT growth



Source: Company, Axis Capital

Exhibit 8: Prince Pipes – RoE and RoCE



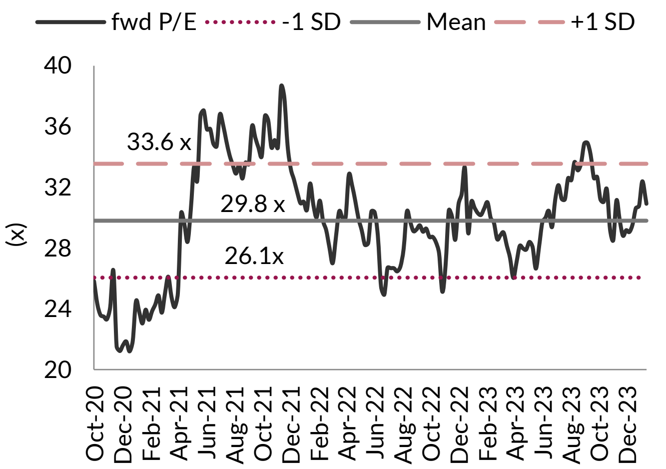
Source: Company, Axis Capital

Exhibit 9: Axis building material coverage - Target PE

	PAT CAGR		RoE	RoCE	Target P/E
	FY23-26	FY24-26	FY24-26	FY24-26	(x)
Prince Pipes	30.2%	18.5%	13.9%	12.0%	30
Supreme	24.0%	18.9%	25.2%	20.3%	37
Astral	29.7%	27.8%	22.4%	17.5%	60
Kajaria	25.5%	16.3%	20.8%	18.0%	32
Century Ply	11.8%	15.1%	18.3%	13.1%	28

Source: Company, Axis Capital

Exhibit 10: Prince Pipes – 1-year-forward P/E (since listing)



Source: Company, Axis Capital

Investment thesis and valuations

Investment thesis

We initiate coverage on Prince Pipes with a **REDUCE** rating and a target price of Rs 725.

- **Expect 10-12% industry volume growth, led by projects**: India's plastic pipe industry (~Rs 540 bn in FY23) is expected to see a 10-12% CAGR over FY23-26E. This will be majorly driven by the government's infrastructure upgrade related capex (Jal Jeevan Mission, expansion of railways, roads, airports, irrigation) and real estate upcycle. Hence, players with higher exposure to government contractors and real estate projects will experience better growth tailwinds compared to the overall industry. Prince Pipes makes ~25% of revenue from projects vs ~50% for Astral and ~60% for Supreme.
- **Prince Pipes is the fifth-largest plastic pipe player, with 5% market share**: As of FY23, Prince Pipes was the fifth-largest plastic pipes player, with Rs 27 bn revenue from plastic pipes and a 5% market share. It is predominantly a B2C-focused player, with 75% revenue share from retail as of FY23. It is one of the two Indian players to have tied up with Lubrizol, US, the world's largest manufacturer and inventor of CPVC compounds.
- **Projects business showing strong growth, increasing focus on retail business**: Prince Pipes's project business revenue share increased from 10-12% in FY20 to ~25% in FY23, implying a 50%+ revenue CAGR over FY20-23. This was led by: (1) its tie-up with Lubrizol leading to better acceptance in projects; (2) the formation of a B2B sales team with a dedicated pan-India head; and (3) macro tailwinds from improvement in construction activity. The retail business (~75% of revenue) saw a ~13% CAGR over FY20-23, largely led by raw material cost inflation-led price increases. Management has established a focus team for assessing the gaps in various retail micro-markets and is working with the sales staff to address these gaps. We expect a 15% volume CAGR over FY24-26E, led by continued growth in projects and revival in retail business. FY24-26E revenue CAGR 14%.
- **Expect 21% EBITDA CAGR over FY24-26E**: On the margin front, we build in a 150 bps EBITDA margin expansion over FY24-26E to 13.8%, majorly led by operating leverage benefits (management expects operating leverage benefits once volume crosses 185 KT per annum (our FY26E volume estimate is 227 KT), and some improvement in the CPVC-mix (led by increased mix from projects). We build in EBITDA/kg at Rs 20.2 in FY26E vs Rs 18.3 in FY24E. EBITDA will see a 21% CAGR over FY24-26E to Rs 4.6 bn.
- **19% PAT CAGR over FY24-26E with low-double-digit return ratios**: We expect Prince Pipes to see a 19% PAT CAGR with an average RoE of 13.9%.

Prince Pipes's management's (1) efforts to revive growth from the retail segment, (2) continued momentum from projects, and (3) low volume in base-year FY24E make a plausible case for volume uptick FY25E onward. However, continued volume growth underperformance vs peers in Q3FY24E (Prince Pipes at -2% YoY; Astral and Supreme at 15-17% YoY) will force consensus to cut estimates. Prince Pipes's YoY volume underperformance compared to peers over the past five quarters also keeps us cautious on the name. We await improvement in volume growth to turn positive on the stock and initiate with a **REDUCE** rating. We value the stock at Rs 725, 30x FY26E EPS, in line with the historical 1-year-forward average P/E since listing.

Exhibit 11: Axis vs Consensus EPS estimate

	FY24	FY25	FY26
Consensus	19.1	25.6	30.1
Axis Capital	17.3	19.8	24.2
Variance	-9%	-23%	-20%

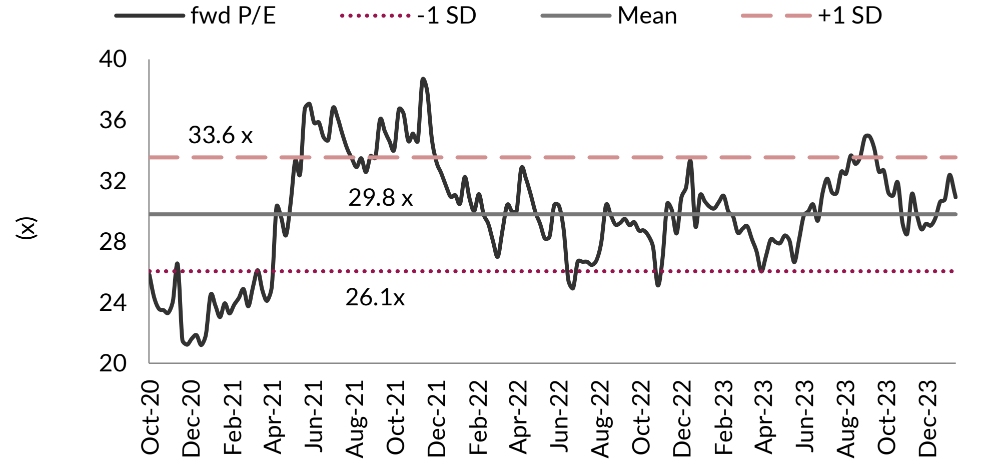
Source: Bloomberg, Axis Capital

Exhibit 12: PAT CAGR average RoE, RoCE, and target P/E of coverage companies

	PAT CAGR FY23-26E	PAT CAGR FY24E-26E	Avg. RoE FY24-26	Avg. RoCE FY24-26	Target P/E (x)
Prince Pipes	30.2%	18.5%	13.9%	12.0%	30
Supreme Industries	24.0%	18.9%	25.2%	20.3%	37
Astral	29.7%	27.8%	22.4%	17.5%	60
Kajaria Ceramics	25.5%	16.3%	20.8%	18.0%	32
Century Plyboards	11.8%	15.1%	18.3%	13.1%	28

Source: Axis Capital Estimates

Exhibit 13: Prince Pipes – 1-year-forward consolidated P/E chart (since listing)

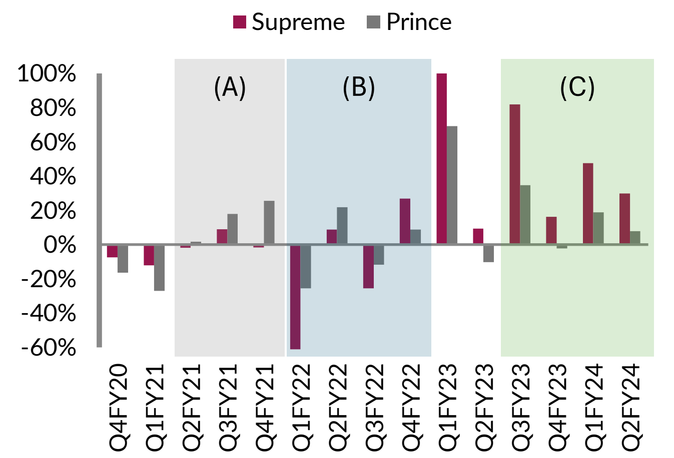


Source: Bloomberg, Company, Axis Capital

Volume rebound critical to narrow valuation gap with Supreme

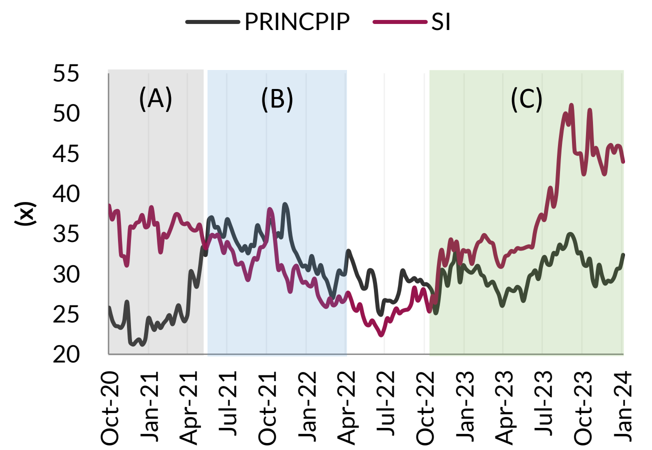
- (A) Prince Pipes bridged the valuation gap with Supreme over Oct'20 to Apr'21 following its tie-up with Lubrizol (Aug'20), giving investors' confidence in its growth.
- (B) Prince Pipes's higher volume growth vs Supreme's over Q2FY21-Q4FY22 helped it trade at a slight premium to Supreme over May'21 to Oct'22.
- (C) Prince Pipes started reporting lower volume growth compared to Supreme starting Q1FY23. Consequently, Prince Pipes started trading at a discount to Supreme. Supreme also rerated significantly in this period due to MSCI inclusion.

Exhibit 14: Prince Pipes and Supreme – YoY volume growth



Source: Bloomberg, Axis Capital

Exhibit 15: Prince Pipes and Supreme – 1-year-forward PE



Source: Bloomberg, Axis Capital

Exhibit 16: India building materials – valuation comparable (Bloomberg consensus)

Company	Price	MCap (US$mn)	P/E FY24E	P/E FY25E	P/E FY26E	P/BV FY24E	P/BV FY25E	P/BV FY26E	EV/E FY24E	EV/E FY25E	EV/E FY26E	RoE FY24E	RoE FY25E	RoE FY26E
India Pipes														
Astral	1,773	5,717	77.1	59.9	48.7	14.6	12.1	10.2	46.3	36.9	30.6	20.3%	21.7%	22.5%
Supreme	4,063	6,195	47.4	39.3	33.7	10.1	8.6	7.4	32.8	27.2	23.5	22.5%	23.4%	23.4%
Finolex	227	1,691	29.3	23.5	19.9	2.8	2.6	2.4	21.1	16.4	14.0	10.1%	11.8%	12.6%
Prince	704	934	37.6	27.9	22.7	5.0	4.4	3.8	20.9	16.0	13.4	14.3%	17.0%	17.7%
Ceramics														
Kajaria	1,395	2,667	46.7	38.2	32.3	8.6	7.6	6.7	28.7	23.8	20.3	19.0%	20.8%	21.7%
Cera	8,040	1,255	40.5	34.4	29.1	7.6	6.6	5.6	28.7	23.9	21.3	20.0%	20.4%	20.7%
Somany	692	353	25.1	18.5	14.9	3.3	2.9	2.4	12.9	10.3	8.5	13.6%	16.4%	17.7%
Wood Panel														
Century	779	2,077	44.0	37.2	29.8	7.6	6.4	5.4	29.1	24.0	19.6	18.6%	18.5%	19.5%
Greenpanel	407	599	26.8	21.8	16.8	3.7	3.2	2.7	16.2	13.1	10.6	14.8%	16.1%	17.6%
Greenlam	533	812	42.1	34.6	25.3	6.0	5.2	4.3	24.2	18.7	14.5	14.6%	16.4%	19.3%
Greenply	240	355	41.0	22.1	16.6	4.2	3.5	2.9	17.1	12.0	10.6	10.5%	17.5%	19.9%
Stylam	1,700	346	23.7	18.5	13.9	5.5	4.4	NA	NA	NA	NA	24.6%	24.9%	24.6%

Source: Bloomberg, Axis Capital *Prices as on 17 January 2024

Exhibit 17: Axis Capital estimates

Company	Rating	Price	MCap (US$mn)	EPS CAGR FY23-26	P/E FY24E	P/E FY25E	P/E FY26E	P/BV FY24E	P/BV FY25E	P/BV FY26E	EV/E FY24E	EV/E FY25E	EV/E FY26E	RoE FY24E	RoE FY25E	RoE FY26E
Astral	ADD	1,773	5,717	30%	78.1	57.4	47.8	14.9	12.2	10.1	47.3	36.2	30.7	20.6%	23.4%	23.1%
Supreme	REDUCE	4,063	6,195	24%	44.2	36.4	31.3	10.1	8.6	7.3	30.8	26.1	22.5	24.6%	25.7%	25.4%
Prince Pipes	REDUCE	704	934	30%	40.8	35.6	29.1	5.1	4.6	4.0	24.2	19.7	16.2	13.2%	13.6%	14.8%
Kajaria	REDUCE	1,395	2,667	25%	44.2	37.1	32.6	8.3	7.4	6.6	27.6	23.4	20.6	20.1%	21.0%	21.4%
Century	REDUCE	779	2,077	12%	42.8	38.6	32.3	7.5	6.4	5.3	29.8	25.6	21.5	19.2%	17.9%	18.0%

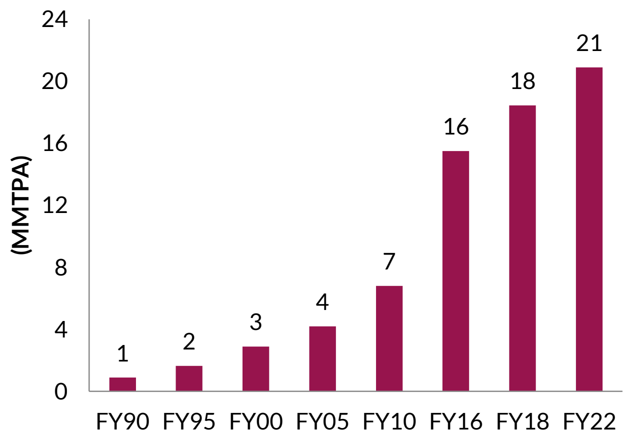
Source: Company, Axis Capital

Industry analysis

India plastics industry overview

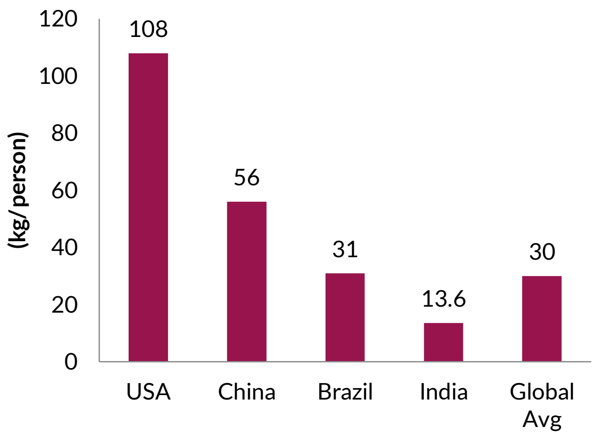
India's plastics industry is one of the biggest in the world, with a 6.4% share in worldwide plastic consumption as of 2019 (Source: OECD). Domestic demand has increased ~3x over FY10 to FY22 (12 years) vis-à-vis a population increase of 1.1 times. The rapid growth can be ascribed to: (1) substitution of other materials, (2) low cost and high product-to-package ratio, (3) shifting consumer lifestyles, (4) higher middle-class population and rising per-capita income, and (5) growth of the organized retail market. In FY19, the per-capita consumption of plastics in India was one of the lowest in the world at 14 kg vs the US's at 110 kg, China's at 45 kg, and global average at 30 kg. This indicates India has enough headroom to increase plastic consumption.

Exhibit 18: India's plastics demand grew 3x over FY10-22



Source: Plastindia, Axis Capital

Exhibit 19: India's per-capita plastics consumption vs peers'

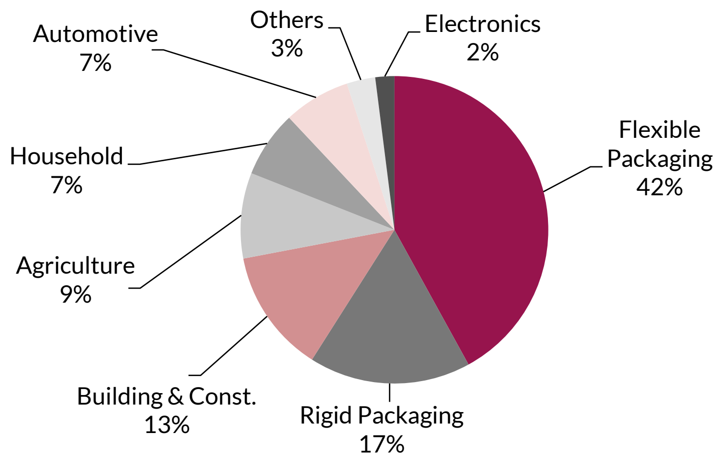


Source: Plastindia, Axis Capital

Packing, construction, and agriculture are India's Top 3 plastic-consuming sectors

Globally and in India, plastics find the highest use in the packing industry, followed by the building and construction industry. Plastic pipes and fittings are mostly used in the construction and agriculture sectors, which together form about 22% of India's plastic consumption.

Exhibit 20: India – segment-wise plastic consumption

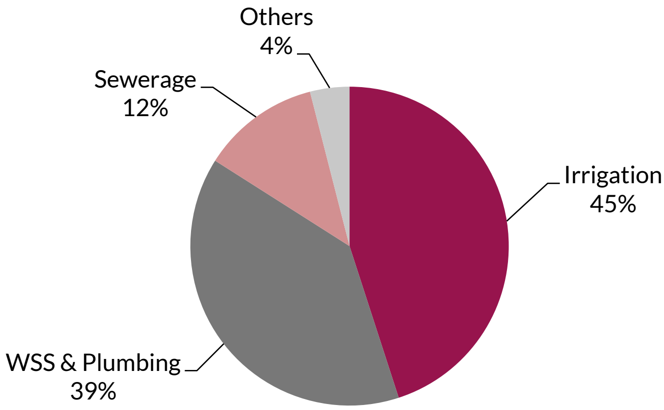


Source: FICCI, Plastindia, Axis Capital

Plastic pipes are an integral part of the water and sanitation infrastructure

Plastic pipes are a cost-effective way to transport water and form an integral part of the infrastructure to transport, distribute, and dispose of life-sustaining resources. They are used in various end-applications such as in the agriculture sector, potable water supply, drainage of soil and waste, industrial applications, and chemical transportation, carrying cables and electrical conducts, etc. More than 70% of the demand comes from agriculture, water supply, irrigation, and sewerage, and depends, directly or indirectly, on government funding. The rest of the demand is from residential plumbing and industrial applications.

Exhibit 21: Segmentation of India's plastic pipe industry by application



Source: Industry, Axis Capital

Evolution of the India's plastic pipes industry (from 1900s to now)

1900s: Metal pipes were preferred for water transportation and sanitation

Since the early 1900s, the piping inside buildings was a legacy of the pre-independence era which was dominated by metal pipes (copper pipes for high-end residential and hotels, and galvanized iron (GI) pipes for the masses).

1960-80s: PVC and HDPE were strengthening their foothold

India's plastic water pipes industry started stabling its foothold in the late-1960s. HDPE and PVC were the early entrants. In the 1980s, rapid capacity expansion on account of World Bank-funded water schemes further triggered growth and acceptance all over the country. During this period, HDPE pipes made from scrap were sold to prestigious government projects as prime-grade pipes. This led to the field failure of HDPE pipes (in the early-1980s) and they languished. Hence, PVC pipes edged out and led to further experimentation in the use of PVC pipes in drainage and water supply inside buildings.

It took two decades for the HDPE pipe market to recover, driven by consistent quality and development of new application areas such as drip and sprinkler irrigation, gas piping, large-diameter sewerage pipes, and consolidation in the core water supply sector with good-quality pipes (second-generation HDPE grades).

1990s: Plastic pipes gained prominence as they solved the deficiencies of metal pipes

In the early 1990s when real estate saw a spurt, metal pipes had been used for years and continued to dominate the market. However, issues of (1) scaling and rusting leading to poor flow of water (on account of choking), and (2) acceleration of corrosion in hot water usage, led the industry to look at alternatives to metal piping. This led to an accelerated shift from metal pipes to plastic pipes (mainly PVC).

Exhibit 22: GI pipe after few years of use

Source: Company, Axis Capital

2000s: Plastic pipe acceptance incentivized players to introduce specialized products
This evolution incentivized the introduction of specialized products by organized players for specific applications, with the development of polymers such as CPVC for hot- and cold-water plumbing, firefighting, and transportation of industrial fluids. The early 2000 saw the entry of many alternate materials into India.

- CPVC: Developed by Lubrizol in 1960 and used extensively all over the world.
- PPR: Developed in 1980 and used in parts of Europe and some countries in the South East.
- PEX: Developed in 1990 and used all over the world.
- PE-AL-PE: Composite piping developed in the 1990s and used in some parts of Europe.

There are different types of plastic pipes for different applications

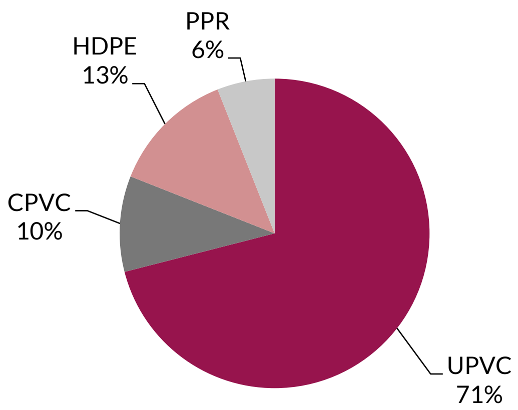
The plastic pipes industry mostly uses four key polymers: unplasticized polyvinyl chloride (UPVC), chlorinated polyvinyl chloride (CPVC), HDPE, and polypropylene (PPR). Composite pipes, which have a mix of metal and plastic layers, are also used for similar applications. Amongst these, UPVC is the most widely used, followed by CPVC, HDPE, and PPR, in that order. Each of the Top 5 plastic pipe manufacturers are present in PVC and CPVC pipes.

Exhibit 23: Plastic pipe types

Type of pipe	Application
Unplasticized Polyvinyl Chloride (UPVC)	Irrigation Cold-water plumbing Drainage
Chlorinated Polyvinyl Chloride (CPVC)	Hot- and cold-water systems Industrial applications
High-density Polyethylene (HDPE)	Underground drainage structured wall WSS solid wall
Polypropylene Random (PPR)	Hot- and cold-water systems Industrial applications
Composite pipe	Hot- and cold-water systems Gas pipeline Industrial applications

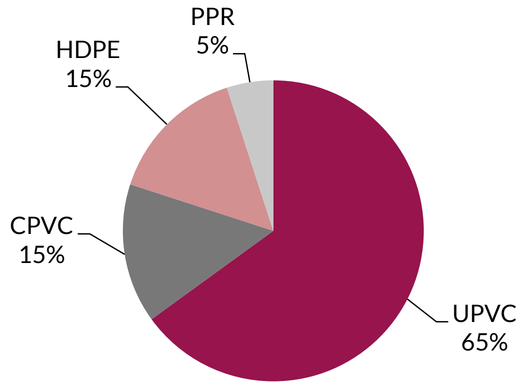
Source: Company, Axis Capital

Exhibit 24: India Pipes: FY14 breakup by pipe type



Source: Industry, Axis Capital

Exhibit 25: India Pipes: FY23 breakup by type



Source: Industry, Axis Capital

Exhibit 26: India plastic pipes – product diversification of various companies

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

Source: Industry, Axis Capital

Exhibit 27: Comparison of types of pipes

	GI	PVC	CPVC	HDPE	PPR
Life (years)	15-20	20-25	30-35	50	50
Max operating temperature (degree Celsius)	200-250	60-70	90-100	90-100	90-100
Cost	Costlier than plastic	Cheaper than GI	Cheaper than GI, costlier than PVC	Cheaper than GI, costlier than PVC	Cheaper than GI, costlier than PVC
Corrosion	Corrodes faster	No effect due to chemical resistance	Has anti-corrosive properties	Excellent anti-corrosion and chemical resistance	Good chemical resistance and corrosion resistance
Leakage	Vulnerable to leakage	Leakage-free	Leakage-free for lifetime	Leakage-free	Leakage-free but requires installation by skilled manpower
Bacterial growth	More prone to bacterial growth compared with plastic	Relatively low compared with GI	Extremely low compared with GI	Extremely low compared with GI	Relatively low compared with GI
Installation	Time- and energy-consuming	Done through cold welding	Done through cold welding	Cold welding, known for more tolerance to poor installation	Fusion-welded system which requires specialised training and equipment
Thermal conductivity & insulation	Needs insulation as heat loss occurs faster due to high thermal conductivity	Requires less insulation as low thermal conductivity reduces heat loss	Requires less insulation as low thermal conductivity reduces heat loss	Requires less insulation as low thermal conductivity reduces heat loss	Requires less insulation as low thermal conductivity reduces heat loss

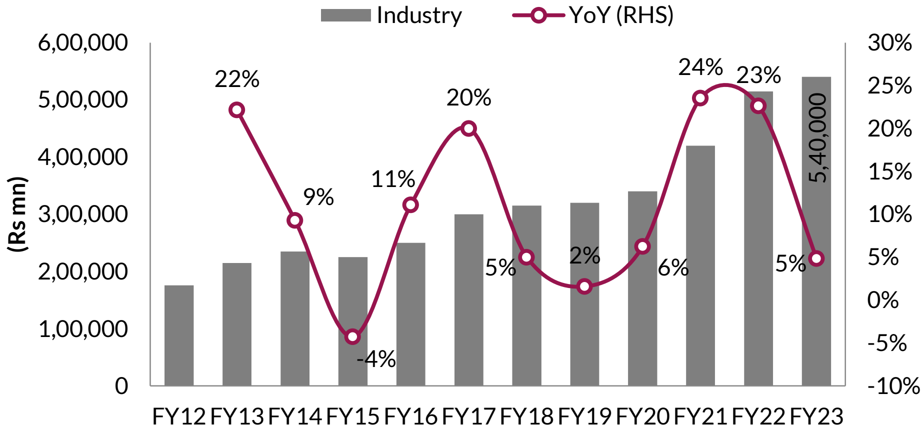
Source: Industry, Axis Capital

India's Rs 540 bn plastic pipes industry to see ~10-12% CAGR over FY23-26E

India's plastic pipes and fittings industry saw 11%, 12%, and 10% CAGRs over the past five years (FY18-23), seven years (FY16-23), and ten years (FY13-23), respectively, to ~Rs 540 bn. This growth can be attributed to several factors, including government investment in infrastructure, an uptick in residential and commercial construction, industrial expansion, the irrigation sector, and the replacement of deteriorating pipes.

The sub-segments propelling offtake in the construction space were increasing investments in WSS projects, substitution of metal pipes with polymer pipes, and replacement demand. Initiatives such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Accelerated Irrigation Benefits Programme (AIBP), and Command Area Development and Water Management Programme (CADWM) have supported the irrigation sector's growth. Additionally, the industry received a boost from the government's Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme, which aims to provide basic services such as WSS and ensure that every household has access to a tap with assured water supply and sewerage connection. As a result, the demand for soil, waste and rain, and drainage pipes was robust.

Exhibit 28: India plastic pipes and fittings industry growth trend



Source: Industry, Axis Capital

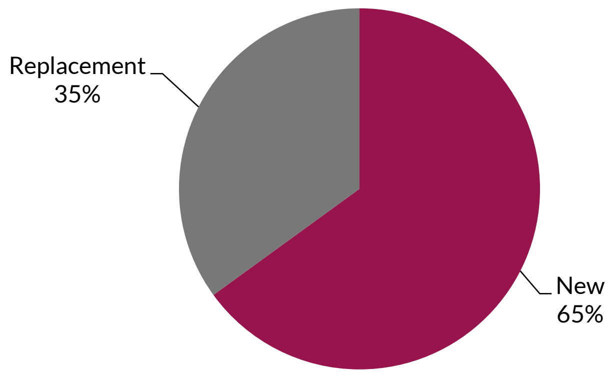
India's plastic pipes and fittings industry is projected to see ~10-12% CAGR over FY23-27E, fueled by a combination of direct and indirect government policies (industry participants say that more than 70% of the plastic pipes industry demand depends directly or indirectly on government funding).

- Direct policies, such as the Jal Jeevan Mission (FY24 budgeted expenditure up 27% YoY to Rs 700 bn) and Har Ghar Jal Yojna, have created new demand avenues for the industry, while indirect policies have amplified its development. The Jal Jeevan Mission (JJM) initiative is a game-changer for the industry. With a target of providing tap water connections to all rural households by 2024, it has created a massive opportunity for plastic pipe manufacturers to cater to the increasing demand for potable water supply. At the time of announcement of Jal Jeevan Mission in Aug'19, 32 mn (17%) rural households had tap water connection, which increased to 138 mn (72%) rural households in Dec'23-end (average annual households addition of 26 mn).
- The government's focus on infrastructure upgrade has led to a massive surge in demand for polymer pipes. The expansion of railways, airports, roadways, agricultural sector, and the affordable housing sector, among others, is driving the demand for polymer pipes in India. The FY24 Budget estimates for road, railway, and metro capex were increased by 25%, 15%,

and 14% YoY to Rs 2.6 tn, Rs 2.9 tn, and Rs 231 bn, respectively. Drinking water and sanitation budget was up 31% YoY to Rs 973 bn.

- Other than government schemes, demand will also be supported by an increase in private-sector investments, primarily in the real estate sector. Demand for plastic pipes and fittings should grow with the rise in construction activity.

Exhibit 29: India plastic pipes – replacement vs new demand



Source: Industry, Axis Capital

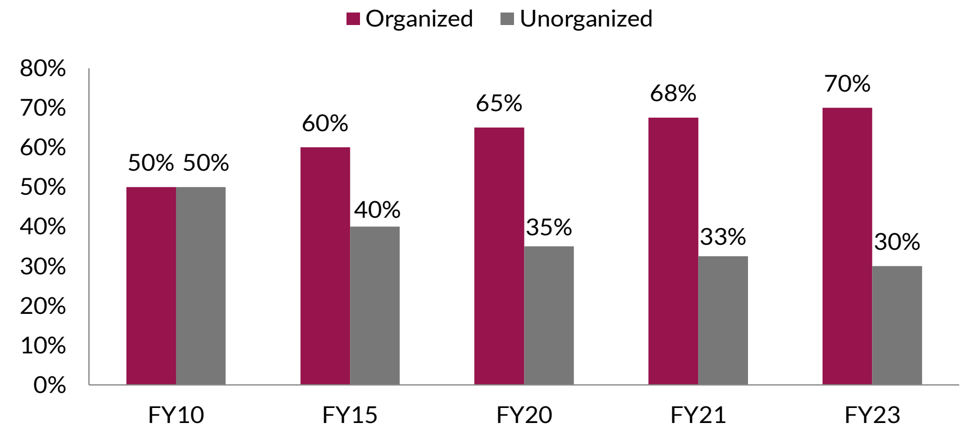
Competitive landscape

Organized players have increased market share, and the trend should continue

The share of organized players in the Indian piping industry has increased from 50% in FY10 to 70% in FY23. Organized players have grown faster than unorganized players and gained market share. This is because of multiple reasons:

- Branding and plumber and consumer awareness activities by organized sector.
- Need to adhere to BIS standards in pipes for residential real estate.
- Increased focus on value-added products and fittings.
- Increased usage of UPVC and CPVC.
- Tax compliance becoming more stringent due to e-invoicing/GST regulations.
- Supply-side issues and RM inflation have hurt unorganized players in FY21 and FY22.

Exhibit 30: India plastic pipes – organized vs unorganized

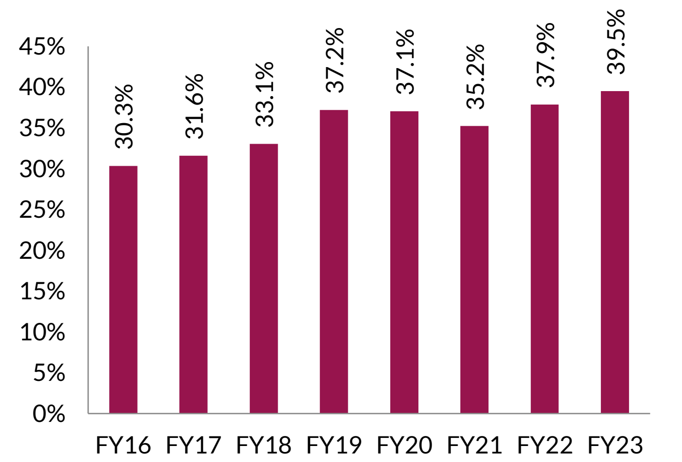


Source: Industry, Axis Capital

Industry is consolidating, with Top 5 players increasing their market share

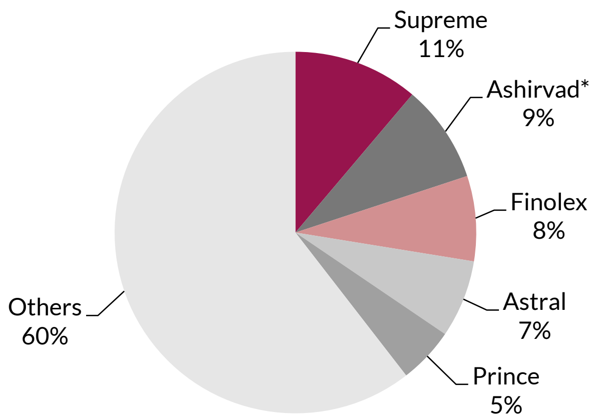
The industry has also been consolidating, with the Top 5 players increasing their share from 30.3% in FY16 to 40.8% in FY23. As of FY23, Supreme was the market leader, with an 11% market share, followed by unlisted Ashirvad Pipes at 9%, Finolex at 8%, Astral at 7%, and Prince Pipes at 5%. Amongst them, Astral was the fastest-growing company in the past five years, followed by Supreme and Prince Pipes.

Exhibit 31: Market share trend of Top 5 players



Source: Industry, Axis Capital

Exhibit 32: Market share of Top 5 players (FY23)

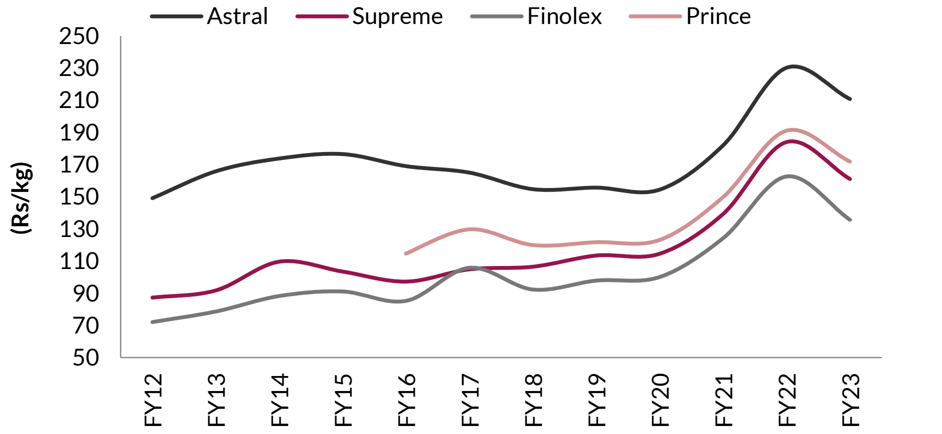


Source: Company, Axis Capital *Ashirvad FY23 revenue is our estimate

Comparing 4 listed plastic pipe companies on operational and financial metrics

Prince Pipes's higher share of revenue from CPVC enables it to make higher ASP compared to Supreme.

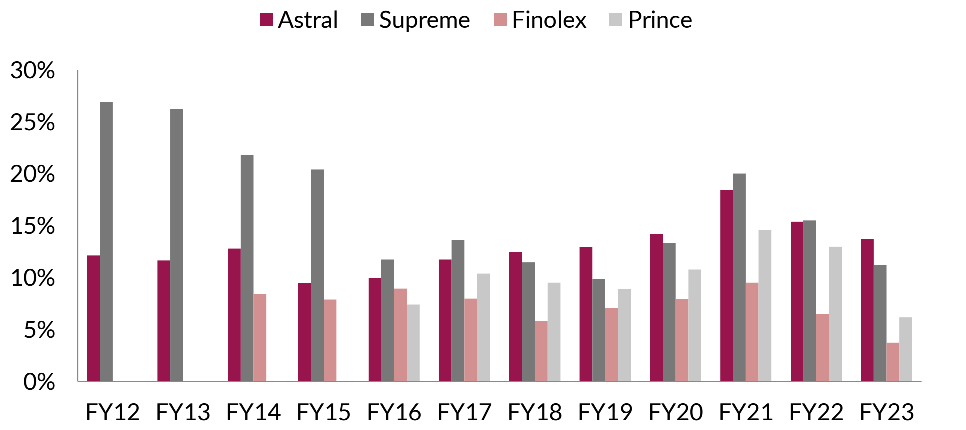
Exhibit 33: India plastic pipes – ASP



Source: Industry, Axis Capital

Astral and Supreme have higher EBIT margins vs Prince Pipes. Finolex has the lowest EBIT margin due to a higher share from agricultural pipes.

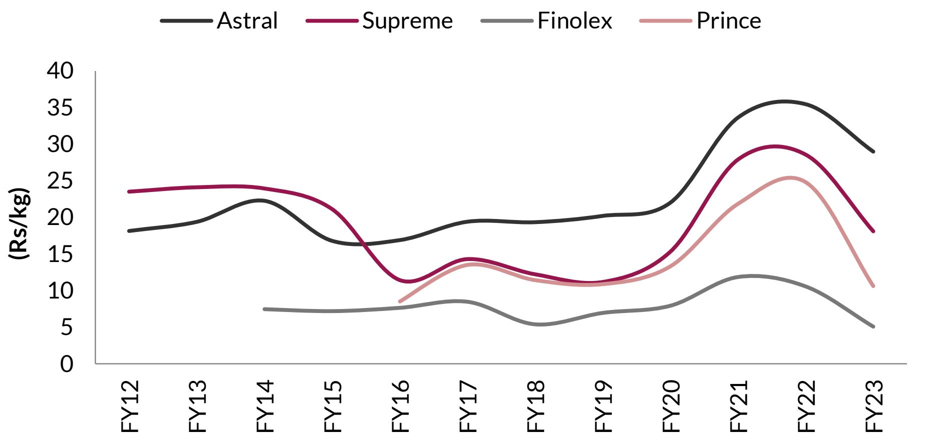
Exhibit 34: India plastic pipes – EBIT margin



Source: Industry, Axis Capital

Astral and Supreme make higher pipes EBIT (Rs/kg) than Prince Pipes. Finolex has the lowest EBIT (Rs/kg) due to higher sales in the agriculture sector.

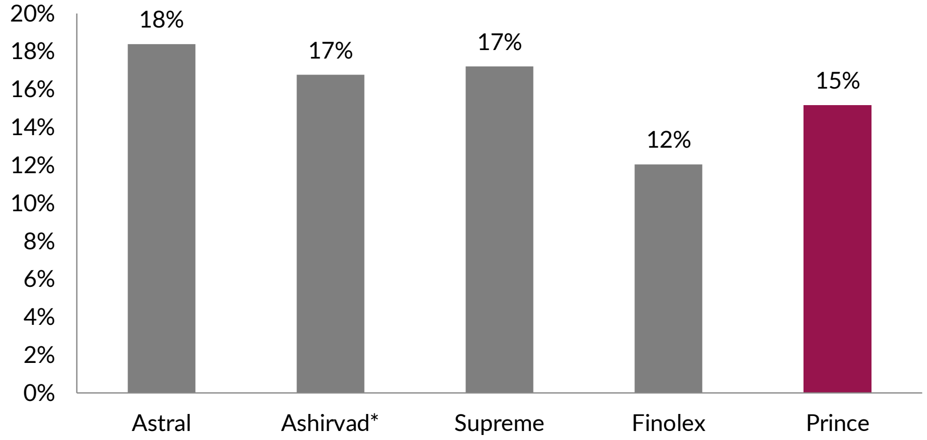
Exhibit 35: India plastic pipes – EBIT (Rs/kg)



Source: Industry, Axis Capital

Over past 5 years (FY18-23), Prince Pipes has lagged the Top 3 industry players in growth.

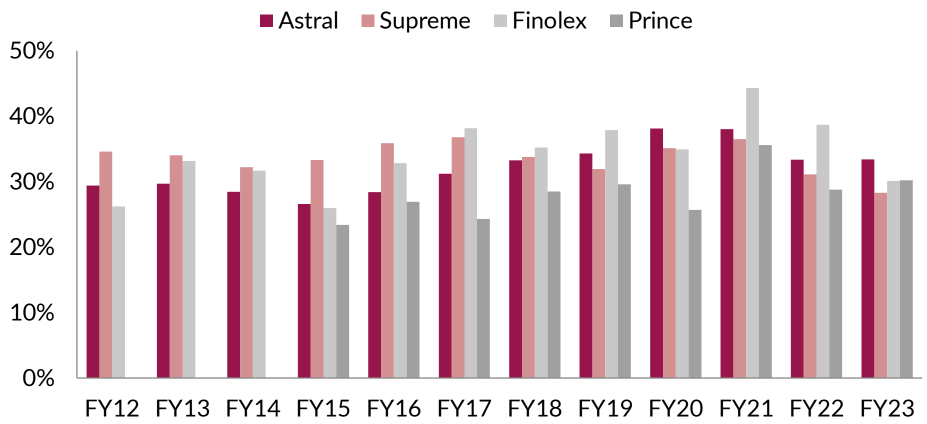
Exhibit 36: India plastic pipes – 5-year revenue CAGR FY18-23



Source: Industry, Axis Capital *4 year CAGR of ending FY22 for Ashirvad

Astral and Supreme have higher gross margins vs Prince Pipes due to better product-mix at the company level. Finolex's gross profit is higher than Prince Pipes's due to its backward integration in PVC resin manufacturing.

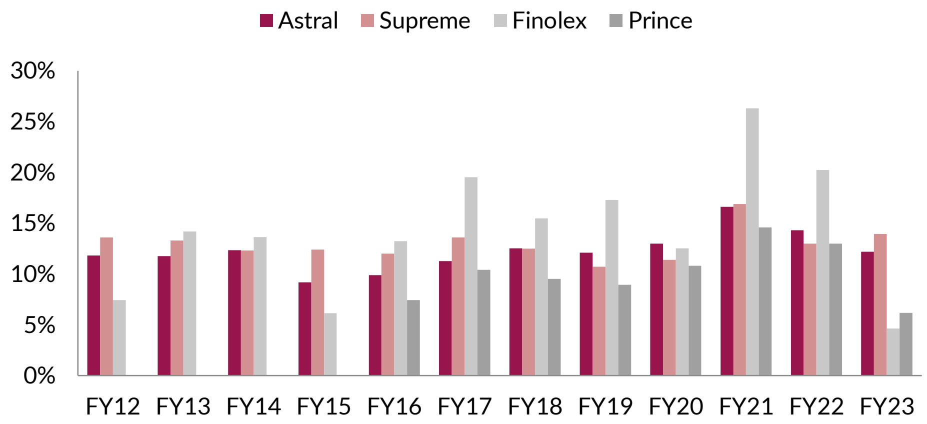
Exhibit 37: India plastic pipe companies – gross margin



Source: Industry, Axis Capital

Astral and Supreme have better EBIT margins vs Prince Pipes. Finolex's EBIT margin fluctuates more, given the margin of the PVC resin segment fluctuates more.

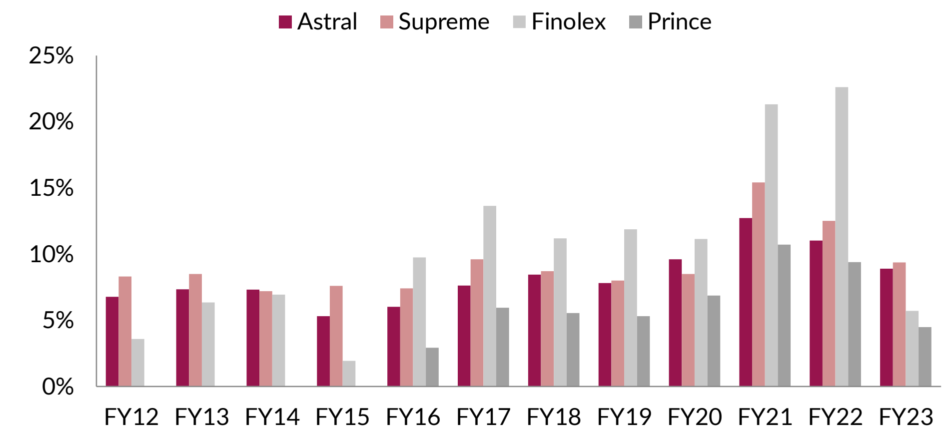
Exhibit 38: India plastic pipe companies – EBIT margin



Source: Industry, Axis Capital

Like EBIT margin, PAT margin of Finolex tends to fluctuate more. Generally, Supreme has a higher PAT margin than Astral. Prince Pipes has the lowest PAT margin.

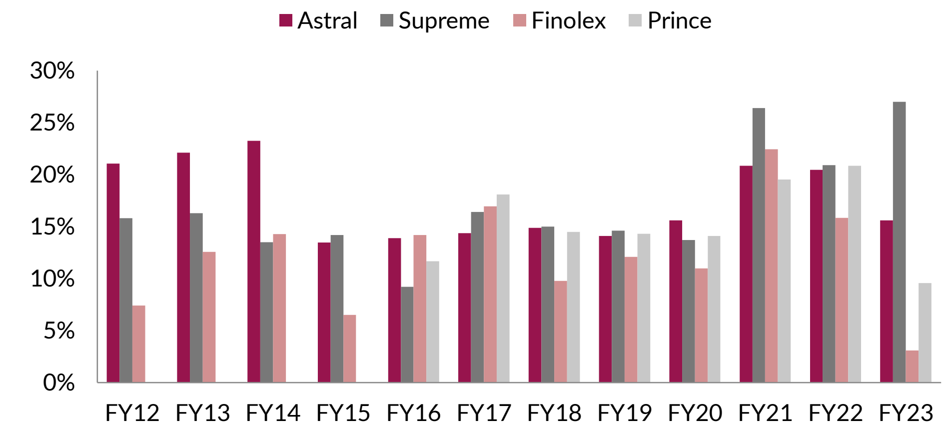
Exhibit 39: India plastic pipe companies – PAT margin



Source: Industry, Axis Capital

Historically, Prince Pipes's RoCE has remained in a tight band with Astral and Supreme (except FY23).

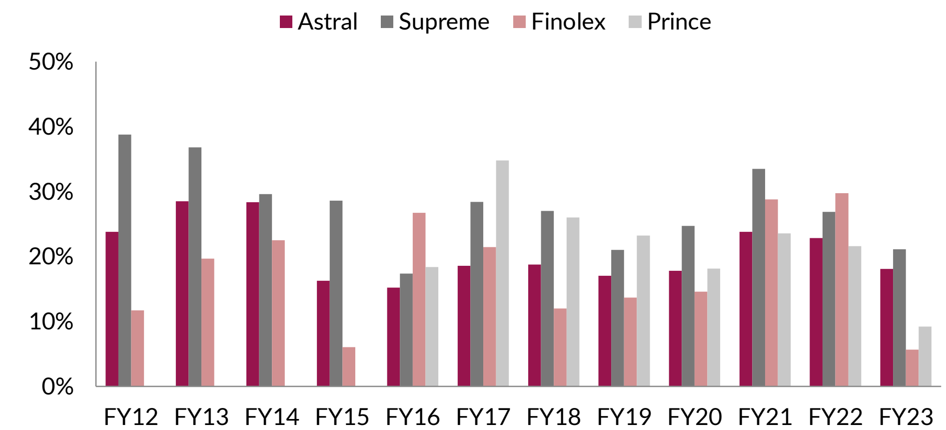
Exhibit 40: India plastic pipe companies – RoCE



Source: Industry, Axis Capital

Historically, Supreme has had the best RoE in most years.

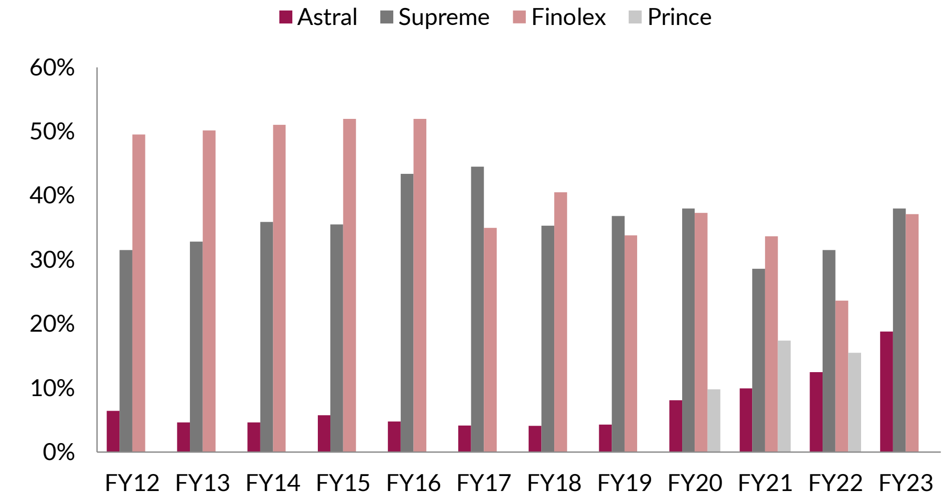
Exhibit 41: India plastic pipe companies – RoE



Source: Industry, Axis Capital

Supreme's RoE is > Astral's as Supreme has a higher dividend payout ratio. In fact, Supreme and Finolex have the highest dividend payout ratios.

Exhibit 42: India plastic pipe companies – dividend payout ratio



Source: Industry, Axis Capital

Comparing Prince Pipes's and Supreme's P&L statements

Prince Pipes has a lower EBITDA/kg compared to Supreme, mainly due to Prince Pipes's unfavourable product-mix and weaker brand perception.

Exhibit 43: Comparison of Supreme's and Prince Pipes's P&L statements (Rs/kg sold)

Rs / kg sold	Prince Pipes					Supreme Industries					Comments
	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	
Net Revenue	122	123	150	191	172	141	134	155	197	182	Supreme's better product-mix reflects in its higher ASP and gross margin per kg.
Raw Material Costs	-87.3	-84.8	-99.7	-136.0	-132.7	-96.0	-87.0	-98.7	-135.9	-130.3	
Gross Profit	34.4	38.3	50.1	55.0	39.2	45.0	47.0	56.7	61.4	51.4	
Employee Cost	-6.1	-6.8	-7.2	-8.4	-7.4	-6.4	-6.8	-7.6	-8.8	-7.4	Employee cost/kg is broadly similar for both players.
Power & Fuel Expenses	-3.0	-3.4	-3.0	-3.2	-3.5	-5.2	-5.3	-4.9	-5.4	-5.3	Prince Pipes has a lower operating cost per kg of sale, mainly due to its lower (1) power and fuel expenses, and (2) labour charges.
Labour Charges	-1.9	-2.2	-2.0	-2.6	-2.5	-4.1	-4.2	-4.1	-4.9	-4.9	
Advertisement & Sales Promotion	-3.4	-2.4	-4.8	-3.0	-2.6	-1.9	-1.8	-1.5	-1.6	-1.9	
Freight and forwarding charges	-1.8	-1.7	-1.9	-2.4	-2.3	-2.7	-2.6	-2.7	-3.3	-3.0	
other expenses	-3.9	-4.6	-5.1	-5.6	-5.1	-5.0	-6.1	-4.5	-5.9	-5.3	
Total operating expenses	-20.0	-21.1	-23.9	-25.2	-23.4	-25.3	-26.7	-25.3	-29.9	-27.7	
EBITDA	14.4	17.2	26.2	29.9	15.9	19.7	20.3	31.4	31.5	23.7	
Inventory (loss)/gain	-	-	3.9	0.7	-7.6	-	-	4.9	-	-3.6	
Adjusted EBITDA	14.4	17.2	22.2	29.2	23.5	19.7	20.3	26.5	31.5	27.2	
Total D&A Expense	-3.5	-3.9	-4.3	-5.1	-5.3	-4.6	-5.0	-5.2	-5.8	-5.2	Prince Pipes's depreciation/kg has increased and is now in line with Supreme's.
EBIT	10.9	13.3	21.9	24.8	10.6	15.1	15.3	26.2	25.7	18.5	
PBT	8.6	11.3	21.6	24.2	10.5	14.6	14.8	26.1	26.1	18.9	
Share of JCEs and Associates	-	-	-	-	-	0.4	0.8	3.6	5.2	3.0	
Net Profit	6.5	8.5	16.0	17.9	7.7	11.3	11.4	23.9	24.6	17.1	

Source: Company, Axis Capital

Company background

Prince Pipes, incorporated in 1987, is among the leading domestic polymer pipes and fittings manufacturers and is currently India's fifth-largest player in terms of revenue, with a market share of 5%. It manufactures polymer piping solutions in five types of polymers – CPVC, UPVC, HDPE, PPR, and LLDP. The company's sells its products under two brands – 'Prince' (pan-India) and 'Trubore' (South India, predominantly Tamil Nadu). The company has seven strategically located manufacturing facilities across India, which gives it a stronghold in North, West, and South India. It has a wide distribution network of 1,500+ channel partners and has a product portfolio of over 7,200 SKUs. Its product portfolio caters to plumbing, sewage and underground drainage, and irrigation solutions. The company went public in Dec'19.

Statutory auditors: M/s. N. A. Shah Associates LLP, Chartered Accountants
Internal auditors: M/s. Mahajan & Aibara, LLP Chartered Accountants

Exhibit 44: Prince Pipes's journey since inception

Year	Particulars
1989	India's first PVC fittings manufacturing unit initiated to provide total piping solutions.
1995	Manufacturing unit at Athal (Silvassa-D & N.H) established to set-up a largescale injection moulding facility.
2000	Set up a new extrusion unit at Dadra (Silvassa - D & N.H) to augment the pipe manufacturing capacity.
2005	Prince Pipes achieved the Rs 1 bn revenue benchmark.
2008	Manufacturing unit at Haridwar, Uttarakhand, established to serve increasing demand.
2012	Acquired 'Trubore' from Chemplast Sanmar Group along with their two manufacturing units at Kolhapur and Chennai.
2015	The 'IMEA Award' for Haridwar factory by Frost & Sullivan.
2018	Expands reach as a B2C brand with Akshay Kumar as brand ambassador.
2019	Manufacturing unit at Jobner, Rajasthan, to cater to increasing volume demand.
2019	Company successfully listed on BSE and NSE.
2020	Prince Pipes collaborates with Lubrizol compounds.
2020	Technical collaboration with Tooling Holland.
2020	Launch of StorefitWater Tanks across India.
2021	Manufacturing unit commissioned at Sangareddy, Telangana, to strengthen strategic presence in South India.
2021	Jaipur plant awarded Gold Award by National Awards for Manufacturing Competitiveness (NAMC) 2021.
2022	Jaipur plant awarded IGBC Platinum rated Green Building certification by the Indian Green Building Council (IGBC).
2023	Launch of modern plumbing and bathware.
2023	Haridwar plant honoured with the Imexl Commitment Prize by Kaizen Hansei.
2023	Chennai plant awarded IGBC Gold Rated Green Factory Building Certification.

Source: Company, Axis Capital

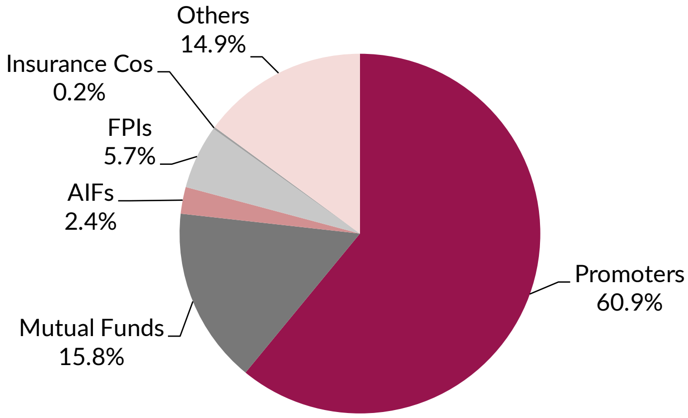
Exhibit 45: Prince Pipes – board of directors

Name & designation	Profile
Jayant Shamji Chheda, Chairman and Managing Director	Mr Jayant, aged 77 years, has been associated with the company since incorporation as a director. He has over four decades of experience in the plastic industry. He was awarded the 'Lifetime Achievement Award' at the Vinyl India Conference, 2014.
Parag Jayant Chheda, Joint Managing Director	Mr Parag, aged 52 years, has been associated with the Company since Apr'96 as a director. Holds an associate degree in business administration from Oakland Community College. Has over 25 years of experience in the piping industry. Awarded the 'Inspiring Business Leader Award' at the Economic Times Summit, 2016 for the 'Business and Industry' sector.
Vipul Jayant Chheda, Executive Director	Mr Vipul, aged 48 years, has been associated with the Company since Mar'97 as a director. Has over 24 years of experience in the piping industry.
Rajendra Gogri, Independent Director	He was appointed to the Board on 25 Jun'20. He holds a master's degree in chemical engineering from Iowa University, US, and is a rank holder from UDCT Institute, Mumbai. In addition to technical expertise, he is adept at handling financial and commercial matters as well. Mr Gorgi has been awarded the prestigious 'Distinguished Alumnus Award' from UDCT in 1995 for excellent performance as an 'Entrepreneur in Chemical Industry'. He was recently honoured with the 'Hurun Most Respected Entrepreneur of the Year – India' award in the year 2019. In the same year, he was also presented by Indian Chemical Council with the 'Lala Shriram National Award' for the leadership in the chemical industry. He is the Chairman and Managing Director of Aarti Industries Limited.
Dilip Deshpande Independent Director	He was appointed to the board on 29 Jun'19. He holds a bachelor's degree in science and technology with specialization in petrochemicals technology and a post graduate diploma in business management. He has over 45 years of experience in polymers and plastics processing industries having served C-level roles in multiple corporates, including Finolex Industries Ltd. He also provides professional coaching to executives.
Ramesh Chandak, Independent Director	He was appointed to the Board on 16 Sep'17. He is the CEO of RDC Business Advisory, which provides individualized leadership coaching, strategy, succession planning and management services. Prior to starting his Advisory practice, he was the MD & CEO of KEC International Limited. He has had a successful career spanning over 40 years across engineering, infrastructure edible oils and textiles industries having global corporate experience working in India, Malaysia, and the US. He currently serves on the boards of various listed companies and not-for-profit organizations. Received CA Business Leader Award in 2008 by the Institute of Chartered Accountants of India. He is a former president of Indian Electrical & Electronics Manufacturers Association (IEEMA).
Uma Mandavgane, Independent Director	She was appointed to the board on 16 Sep'17. She is a Chartered Accountant and Certified Information Systems Auditor. Her professional experience spans 28 years in corporate finance management and Risk Advisory Consulting and had held senior positions in the Big 4 consulting firms. Currently Uma has an independent practice providing Business and Technology Risk in Information Systems Security domain and Data Analytics in Internal Audits. Her last professional stint was with Zee Media Corporation Ltd.

Source: Company, Axis Capital

Shareholding Pattern

Exhibit 46: Prince Pipes – shareholding pattern as of Dec'23



Source: BSE, Company, Axis Capital

Exhibit 47: Prince Pipes – promoter's shareholding trend

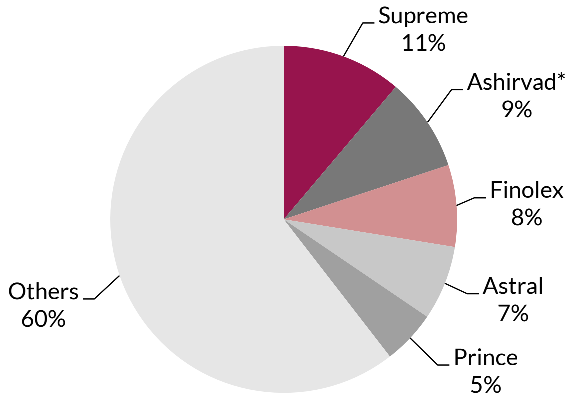
Source: BSE, Company, Axis Capital

Business analysis

India's fifth-largest plastic pipe player with a 5% market share

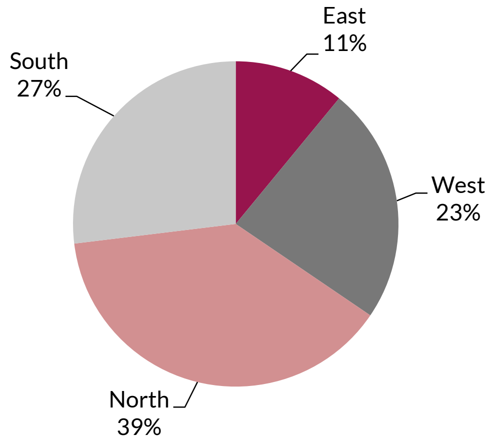
As of FY23, Prince Pipes was the fifth-largest player in India's plastic pipes industry, with Rs 27 bn in revenue from plastic pipes and a 5% market share. The company has a strong presence in North India (it was a first mover in the industry to set up plant in the region) and West India. It is a relative laggard in South India. East India is growing fast for both Prince Pipes and the industry. It markets its products under brands 'Prince' (across India) and 'Trubore' (South India).

Exhibit 48: India plastic pipes - market share



Source: Industry, Axis Capital *Ashirvad FY23 revenue is our estimate

Exhibit 49: Prince Pipes region-wise sales (FY19)

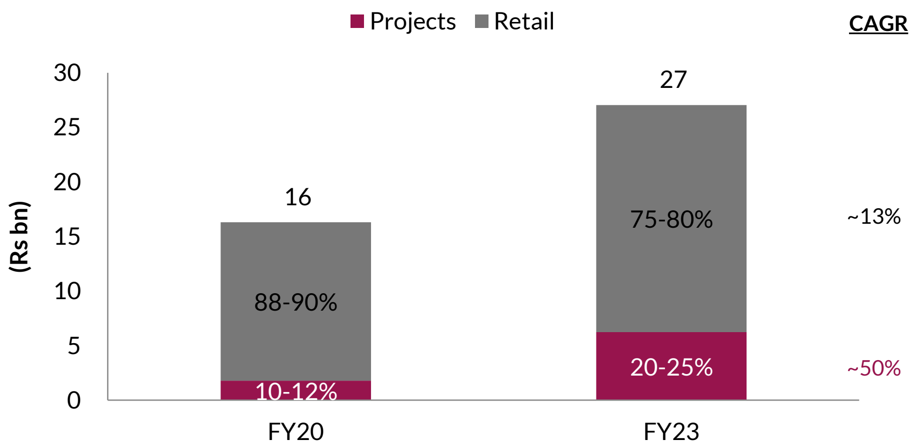


Source: Industry, Axis Capital

Traditionally a retail-oriented player, increasing penetration in projects

Prince Pipes is predominantly a B2C player, with a 75% revenue share from retail. However, the company has incrementally increased its focus on the projects business, leading to an increase in revenue share from projects to ~25% in FY23 vs 10-12% in FY10. This implies a 50%+ revenue CAGR from the projects business over FY20-23 vs ~13% CAGR for the retail business. Initially the projects team was restricted to metros. Prince Pipes added project team in Tier-2 cities and appointed a B2B projects pan-India head.

Exhibit 50: Prince Pipes – revenue-split by target customer segment



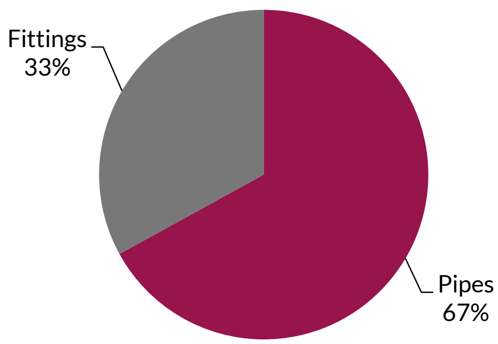
Source: Company, Axis Capital

Consistently expanding the pipes and fittings portfolio

In line with its aim to be an end-to-end pipes and fittings solution provider, the company has been building a comprehensive product portfolio. Its plastic pipes portfolio consists of five types of polymers – CPVC, UPVC, HDPE, PPR and LLDP. The company has over 7,200+ SKUs which serve a wide range of industry applications like (1) plumbing, (2) sewage, (3) underground drainage, (4) surface drainage, (5) agriculture, (6) borewell, (7) industrial, (8) water storage, (9) modern plumbing, and (10) cable protection.

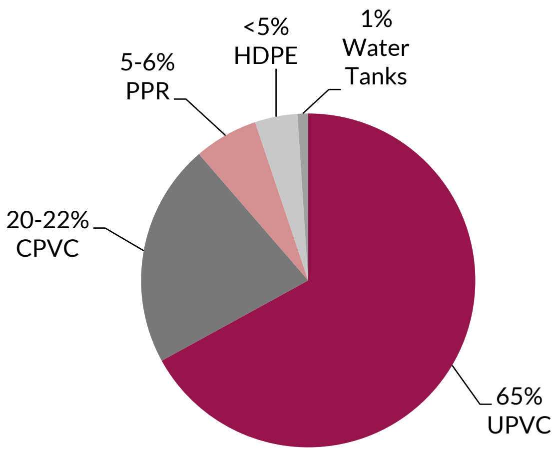
- Healthy mix of pipes and fittings at ~67% and ~33% or FY23 revenue, respectively.
- As per management, Prince Pipes has a 10% market share in CPVC (value and volume) which contributes 20-25% to Prince Pipes's overall portfolio.
- Prince Pipes focusses on plumbing, SWR, and industrial, as the gross margins in these segments are better than in agriculture. In infrastructure projects, management intends to ensure tight control over debtors, even if it is at the expense of margin. From an end-use perspective, Prince Pipes generated ~60-65% of revenue from plumbing and SWR, ~29-30% from agriculture, and 5-6% from infrastructure in FY23.

Exhibit 51: Prince Pipes – revenue-split by sales channel



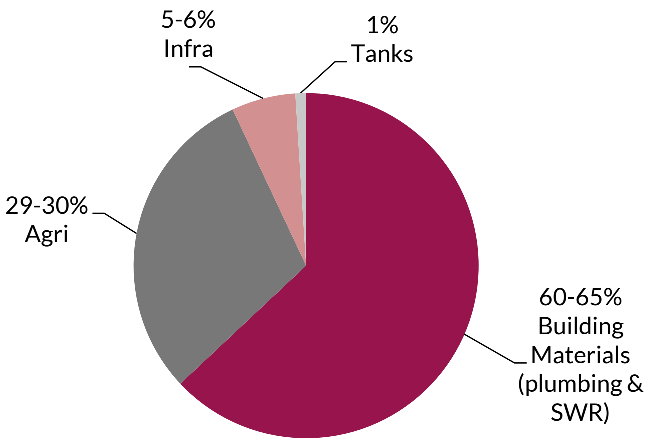
Source: Company, Axis Capital

Exhibit 52: Prince Pipes – revenue-mix by product (FY23)



Source: Company, Axis Capital

Exhibit 53: Prince Pipes – revenue-mix by end-use segments



Source: Company, Axis Capital

Collaboration with reputed international players to further enhance product portfolio

- In 2020, Prince Pipes collaborated with Lubrizol, US, the world's largest manufacturer and inventor of CPVC compounds.
- In FY23, Prince Pipes introduced Prince OneFit with Corzan CPVC technology – its second product in collaboration with Lubrizol, and WireFit - electrical conduit pipes and fittings.
- In FY23, the company made new global product collaborations with Ostendorf Kunststoffe and Hauraton and launched three new plumbing and drainable solutions under its modern plumbing division. This initiative was a part of the company's growth strategy to bring innovative, global drainage products to the Indian real estate and industrial projects to align with world-class norms and standards.
  - *Skolan Safe* – a premium polypropylene (PP) silent drainage system. It offers the latest technological innovation in noise-insulated drainage systems sound rated at 12 db at 2 lps flow rate and certified by Fraunhofer, Germany. Skolan Safe finds applications in luxury homes, condominiums, large commercial buildings, hotels, office buildings, hospitals, commercial kitchens, libraries, and educational institutes.
  - *HT Safe* – a PP low-noise drainage system. With India's rapid urbanisation, HT Safe has emerged as a reliable, new age drainage system that can replace all challenges faced by conventional piping and drainage systems, delivering a significantly superior experience in terms of mechanical, chemical, and acoustic performance.
  - *Prince Hauraton* – a modern range of surface drainage solutions. The products find application across civil constructions (car parks, airports, container terminals, petrol stations), landscapes (private and public areas, terraces, gardens, squares and parks, railway platforms) and sports facilities (sports fields, stadiums, racetracks).

Exhibit 54: Prince Pipes – product portfolio

Source: Company, Axis Capital

Key benefits of the collaboration with Lubrizol

- The FlowGuard Plus brand enjoys good recall and acceptability among the institutional/builder community in India, especially metros/Tier-1 cities, thus helping Prince Pipes strengthen its private project business and cross-sell its PVC products.
- Improved acceptance among retail channels helped Prince Pipes get a larger wallet share of existing retailer partners, who were earlier selling competitor-brand CPVC products.
- Helped narrow the price gap vs leading peers to ~1-2% for PVC pipes and ~5% for CPVC.

Investing in premiumisation of the brand 'Prince'

- Prince Pipes is focusing on 'premiumisation' of the 'Prince' brand. This will enable the company to create a customer-led pull demand driven by strong appreciation for the attributes of the 'Prince' brand and better customer acceptability.
- The company is taking several tactical initiatives to create the desired premium perception among audiences, including: (1) on-ground activations, (2) dealer interactions, (3) plumber training on product portfolio education, and (4) plumbing/installation-related issues. The company is also conducting extensive factory visits for plumbers, dealers, and plumbing consultants, giving them an opportunity to witness its product testing processes and helping them strengthen their confidence in the 'Prince' brand.
- Prince Pipes's global product and technical collaborations with Lubrizol, Tooling Holland, Ostendorf Kunststoffe, and Haurton help it improve the brand perception.
- To enhance top-of-mind recall, Prince Pipes has signed leading actor Akshay Kumar, who has been the brand ambassador for Prince Pipes since 2018. Management believes that Prince Pipes's brand portfolio resonates powerfully with Akshay's ability to reach out to its industry participants across India, especially in Tier-2/3 regions and hyper-local domains.
- Prince Pipes targets to maintain A&P spends at ~2% of revenue. This is in line with the average A&P/sales spend of Astral, Ashirvad, Supreme, and Prince Pipes.

Exhibit 55: Prince Pipes – global brand collaborations to drive brand premiumisation

TECHNICAL COLLABORATION

Tooling holland
A global leader in plastic moulds manufacturing

PRODUCT COLLABORATION

Lubrizol
World's largest manufacturers and also the inventors of CPVC compound

FLOWGUARD PLUS CPVC PLUMBING SYSTEMS
FLOWGUARD® is the registered mark of The Lubrizol Corporation. The Lubrizol Corporation is a Berkshire Hathaway Company.

Ostendorf Kunststoffe

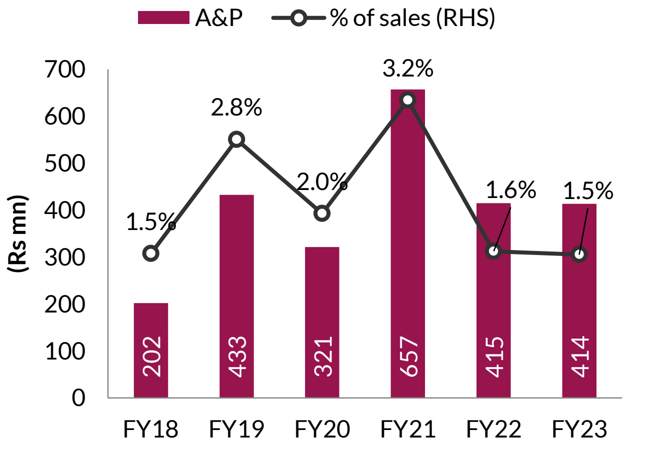
HT safe

Skolan safe

hauraton

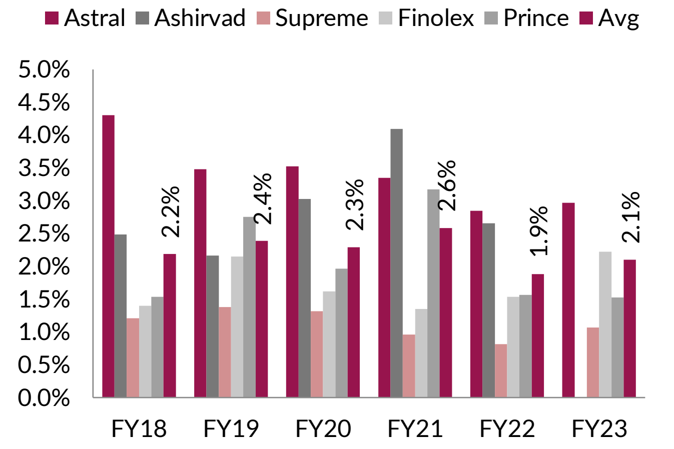
Source: Company

Exhibit 56: Prince Pipes – A&P spends



Source: Company, Axis Capital

Exhibit 57: A&P to sales ratio of Top 5 plastic pipe companies



Source: Company, Axis Capital

Exhibit 58: Prince Pipes brand ambassador – Akshay Kumar

Source: Company, Axis Capital

Improving quality of distributors and increasing strength of project team

- **Focusing on improving quality of existing retail distribution**: Prince Pipes's focus on increasing its distribution reach led to it nearly doubling its distributor count from 766 in Mar'17-end to 1,500+ in Mar'21-end. As of Mar'23-end, the company had 1,500+ distributors and the focus has shifted to improving quality of distributors. However, new distributors will continue to be appointed in geographies where it has weak presence.
- **Strengthening the projects team**: Historically, Prince Pipes has been a retail/B2C-oriented company. As of FY20, projects formed ~10% of the company's revenue. This is significantly lower than the 35-40% share of projects in industry revenue. However, Prince Pipes has

increased its focus on the projects business since then and projects constituted ~25% of its FY23 revenue. Prince Pipes started off by appointing a projects team restricted to metros, but it has now added project teams in Tier-2 cities and has also appointed a pan-India B2B real estate head for the projects business.

Exhibit 59: India plastic pipes – distribution strength (Mar'23-end)

Company	Distributors	Retailers
Astral	2,778 +	1,93,000
Ashirvad Pipes	1,500 +	60,000 +
Supreme Industries	4,577	
Finolex Industries	900 +	21,000 +
Prince Pipes	1,500 +	
Apollo Pipes	700 +	

Source: Industry, Company, Axis Capital

Prince Pipes entered the bathware business in 2023

Prince Pipes entered the bathware segment with a collection of faucets, showers, sanitaryware and accessories under the name 'Prince Bathware' in Jun'23. With this, Prince Pipes is trying to diversify into the Rs 180 bn bathware segment, as of FY23. This includes the Rs 60 bn sanitaryware industry (75% organized) and the Rs 120 bn faucetware industry (65% organized). The company received its first order in Aug'23.

Entered bathware segment with asset-light model and outsourcing

Prince Pipes has not invested in manufacturing facilities and plans to put up an in-house manufacturing facility for faucets in two to three years.

Positioning itself in the mass premium segment

Prince Pipes is positioned in the largest segment of the bathware market – the mass premium segment (one notch below Jaquar). This segment is set to see double-digit growth over the medium term. Prince Pipes will target Tier-2/3 cities like Jammu, Jaipur, Nashik, etc.

Management priorities: Branding, people, distribution, and technology

To increase its odds of winning in the bathware industry, Prince Pipes is set to focus on:

- *Brand building*: The company will invest Rs 100-120 mn per annum (in addition to pipes).
- *Invest in the right people*: Service teams and state heads have been set up, with Mr Harsh Kumar (ex- Jaquar) leading the team. Mr Harsh Kumar will assist Mr Ashok Mehra (President, Sales, and CMO). The company has planned for Rs 50-60 mn per annum of manpower cost for Prince Bathware.
- *Improve distribution reach*: The products are being introduced in a phased manner across India. The products have been launched in parts of North and West India and are expected to be launched in East India in Q4FY24.

Bathware go-to-market strategy

The company has launched Prince Bathware in West and North India with a range of ~400 SKUs. Functional warehouses have been established in Dadra and Morbi. The bathware projects business will be run like the pipes project business – i.e., it will sell to the builder or developer through the channel, thereby keeping the working capital in check.

Exhibit 60: Prince Pipes – bathware collection

Source: Company, Axis Capital

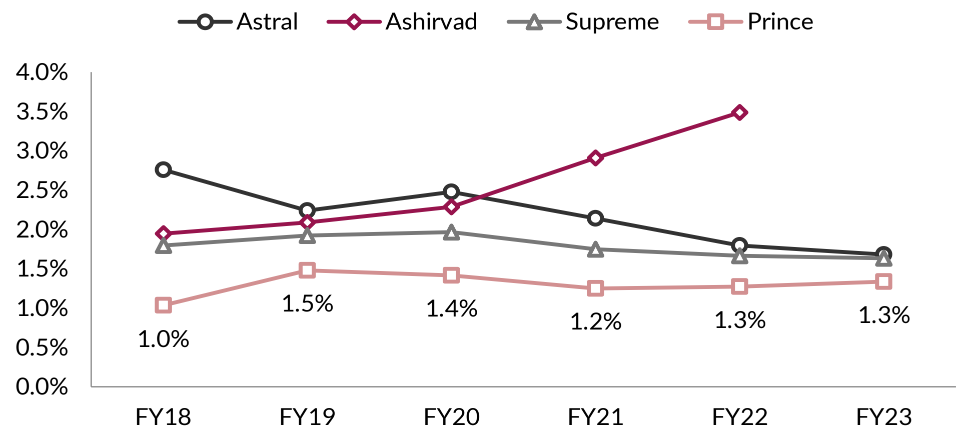
Decentralized manufacturing helps lower freight cost & service markets faster

In pipes, transportation costs play a critical role due to the bulkiness of the product. Therefore, proximity of manufacturing plants to end consumer markets helps in cost efficiencies. Prince Pipes has followed a multi-plant model, which helps it keep its freight costs low. As of Sep'23-end, Prince Pipes had 328 KT p.a. of own manufacturing capacity across seven manufacturing plants. These plants give the company reach in North, West, and South India. In line with its intention of keeping manufacturing base closer to the target market, the company is also adding a greenfield plant in Bihar and is in the process of starting tanks manufacturing in Haridwar and Chennai plants (taking tank manufacturing to five of its seven inhouse locations).

Exhibit 61: Prince Pipes - manufacturing capacity as of Sep'23

Source: Company, Axis Capital

Exhibit 62: India Plastic pipes – comparison of outward freight cost-to-sales ratio



Source: Company, Axis Capital

Continuous capacity realignment between plants to reduce net freight cost

The company also realigns its capacities within plants to minimise the net freight cost. For example, when specific SKUs are in high demand in a market, the company shifts that machinery to the closest manufacturing facility. This in helps the company to achieve an efficient supply chain and reduce net freight cost.

Telangana plant helped improve competence in the South India market

Fittings requirements for South India were earlier supplied from the company's Haridwar facility, resulting in high logistics costs. The Telangana plant commercialization opened de-centralization benefits, aiding margin improvement.

In the process of setting up 40,000 t p.a. greenfield plant in Bihar

Prince Pipes is setting up a 40,000 t p.a. greenfield plant in Bihar (eighth plant) for Rs 1.5 bn, to benefit from the development in the East India market (~15% of industry). The company has acquired land in the Begusarai industrial area, Bihar. The construction commenced in Q3FY24 and is expected to be completed by 4QFY25. This plant will cater to demand in the North-East, which is expected to be a major growth driver for the pipes industry in the coming years. As of H1FY24, the company is sourcing from partners in Hajipur, Bihar, and Jamshedpur, Jharkhand, for entry-level products, and sourcing other SKUs from Haridwar and Jaipur plants.

A quick look at raw material procurement

CPVC

Before Aug'19, Prince Pipes imported CPVC resin from Korea and China (inferior quality), as the company was focussed on capturing volume market share. The quality of resin imported from these two countries was inferior to that supplied by Lubrizol, Sekisui, and Kaneka Corporation. However, post ADD imposition on CPVC resin imports from both China and Korea in Aug-Sep'19, Prince Pipes switched its CPVC resin sourcing to Japan, Europe, and other countries. In late Aug'20, it tied up with US-based Lubrizol (a leading CPVC compounds manufacturer) for three years. The tie-up with Lubrizol has been renewed by both the parties.

PVC and other polymers

For sourcing other resins, including PVC, Prince Pipes depends on both domestic sources and imports. The ratio of imports and domestic sourcing is dynamic and depends on the expected price trend in polymers. Management expects the share of domestic souring to increase. Prince Pipes has PVC supply contracts with Reliance and Champast Sanmar.

An update on the key investor concerns

Promoter debt and liability concerns

Share pledge (resolved)
Prior to the IPO, Prince Pipes promoters had 35% holding pledged with KKR India for a loan of Rs 2 bn. These loans were related to investments made in the 2000s for real estate, which failed to fructify as expected. However, as promised, the company's promoters utilized the IPO proceeds to release this pledge on the first day of listing.

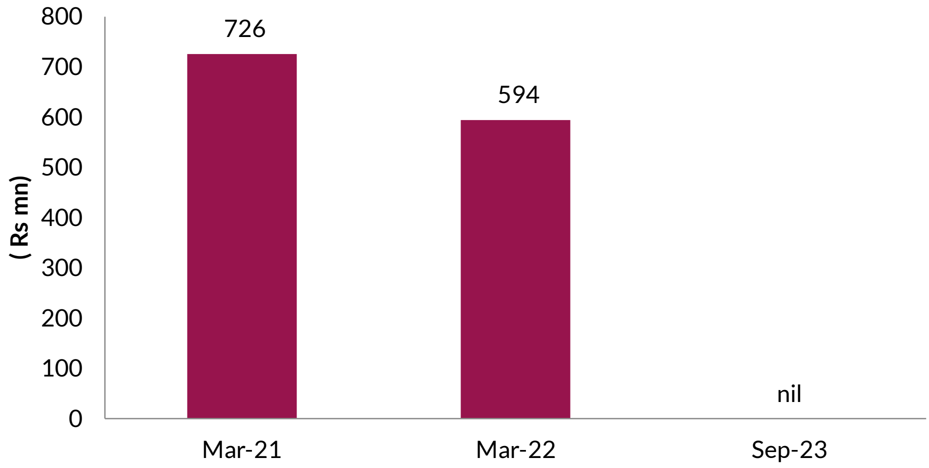
Unsecured personal leverage (resolved)
Apart from secured loans from KKR, the promoters had also availed a few personal unsecured loans of Rs 100-150 mn. Management shared that the terms of these loans prevented it from paying off these loans during the IPO. These loans were subsequently paid within a year of the IPO, as promised by management during the IPO.

Litigation overhang (pending resolution)
Two Prince Pipes promoters, Jayant Shamji Chheda (Chairman and Managing Director) and Heena Parag Chheda, are partners in M/s Aditya Developers (Aditya), a partnership firm, with 10% share each. Montana Developers had filed a complaint against Aditya and its partners, in relation to a JV agreement dated 30 Dec'10 signed by Montana and Aditya. The dispute was over land in Vasai and the total claim by Montana stood at Rs 9 bn (including interest at 27% per annum) to be paid by Aditya and its partners. As per the latest management update, the order passed by the tribunal has announced an award of Rs 1.5 bn in favor of Aditya and has cleared the land's title. The liability of Prince Pipes's promoters will be to the extent of 20% share in the total payable. The underlying land covers ~80% of the Rs 1.5 bn liability on Aditya's partners.

Channel financing recourse has now been shifted to the distributor (resolved)

To improve its working capital cycle, Prince Pipes shifted a few of its major distributors under channel financing with a recourse option. This ballooned the company's contingent liabilities in Mar'20-end. However, management has taken corrective actions since then, and as of Sep'23-end, all channel financing recourse has shifted to the distributor from the company.

Exhibit 63: Prince Pipes – contingent liability from channel financing



Source: Company, Axis Capital

Use of 'Prince' brand by certain third-parties (resolved)

The Prince Pipes family got restructured in the early 1990s. While the ownership of Prince Pipes came to Mr Jayant Shamji Chheda (Chairman and MD of Prince Pipes), other group companies – Prince SWR Systems Pvt. Ltd., Prince Realty, Prince Multiplast and Prince Care – were given to his brothers. None of these promoters have any cross-holdings in each other's companies. Another company that is in the same line of business of manufacturing and trading in PVC pipes, Prince SWR systems Pvt. Ltd., uses the brand 'Prince Platinum', which often causes confusion in the minds of Prince Pipes's consumers. Hence in Jul'14, Prince Pipes business changed its brand name and logo to 'Prince Piping Systems' to distinguish itself.

Exhibit 64: Prince SWR Pvt. Ltd. brand logo

Source: Company, Axis Capital

Exhibit 65: Prince Pipes brand logo

Source: Company, Axis Capital

Related-party transaction with promoter entity reversed (resolved)

Prince Marketing (a promoter group partnership firm) and Prince Pipes had signed an MoU for the premises situated on the 8th floor of The Ruby, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400028. In terms of the MoU, Prince Marketing had agreed to sell the premises to Prince Pipes for a total consideration of Rs 5.5 bn, towards which Rs 4 bn had been remitted as an advance by the company. The purchase price for the property was determined based on a valuation report dated 24 Dec'16, which was Rs 4.4 bn, and adding for appreciation of the property value due to passage of time. However, given the investor concerns around related-party transaction, the company reversed the transaction and complete amount of Rs 4 bn was received back by the company in FY21.

Financial analysis

FY23 performance

- FY23 was adversely impacted by a sharp decline in PVC prices (the weighted-average PVC price declined 25% YoY). Revenue grew 2% YoY to Rs 27 bn, led by a 13.4% volume growth (to 157.7 KT) and 10% YoY drop in realization to Rs 172/kg. EBITDA margin came in at 9.2% (ex-inventory loss at 13.7%). EBITDA/kg ex-inventory loss came in at Rs 23.5. EBITDA declined 40% YoY to Rs 2.5 bn. However, the PAT decline was higher at 51% YoY, majorly due to an 18% increase in depreciation.
- Core working capital improved to 70 days as of end-Mar'23 vs 90 days as of end-Mar'22, led by 28 days of reduction in inventory and four days in debtors. Creditors reduced by 12 days. Long-term debt was nil as of end-Mar'23 and short-term debt stood at Rs 581 mn. End-Mar'23 net cash stood at Rs 1.5 bn.

Q2FY24 performance

- Q2FY24 revenue grew 3% YoY to Rs 6.6 bn, led by 8% YoY volume growth (+12% QoQ), and 4% YoY realization decline (due to lower PVC resin prices). Prince Pipes reported lower volume growth vs peers (Supreme +30% YoY and Astral +28% YoY). Management believed that this could be due to over-premiumization in a few markets and capacity constraint in HDPE (seeing higher growth due to infra capex). Prince Pipes is addressing both the issues by (1) adding HDPE capacity which will be operational in Q4FY24 start, and (2) cutting prices to be more competitive in a few markets.
- EBITDA came in at Rs 942 mn (EBITDA margin 14.3%). EBITDA/kg stood at Rs 22.7. PAT came in at Rs 707 mn (Rs 528 mn adjusted for Rs 179 mn of extraordinary gain).
- Management shared that bathware received an encouraging response from the channel and the distribution network expansion is progressing as per plan. Two key costs incurred by bathware during the quarter totaled ~Rs 50 mn (employee cost of Rs 15 mn and branding cost of Rs 30-40 mn) – this was 0.8% of revenue.

Management guidance

- **Plastic pipes**: Management expects the company to beat industry growth by ~200-300 bps. Given an expected industry growth rate of ~10-12%, this implies a 12-15% volume CAGR over the next three to five years. Focus on infra projects is expected to increase, led by the government's focus on the segment. Though these products have a lower margin, the company will ensure debtors are under control. HDPE was less < 3% of volume in Q2FY24 and is expected to be 7-8% in Q4FY24.
- **Bathware**: Prince Pipes is targeting Rs 80 mn revenue from the bathware in Q3FY24. It expects cash loss of Rs 150 mn annually over two years and breakeven in FY27E.
- **Margin**: Management intends to sustain a 12-14% EBITDA margin (this was reduced in Q1FY24 from the 13-15% guidance in Q4FY23). However, management opined that this guidance may be revised upwards with an increase in share of CPVC products. Further, management expects significant operating leverage benefits once the volume exceeds 185 KT. Management higher CPVC growth to enable EBITDA margin improvement.
- **Advertising and promotion (A&P):** A&P is expected to be ~2% for pipe and water tank. The bathware segment A&P investment is expected to range at Rs 100-120 mn.

Capacity and capex outlook

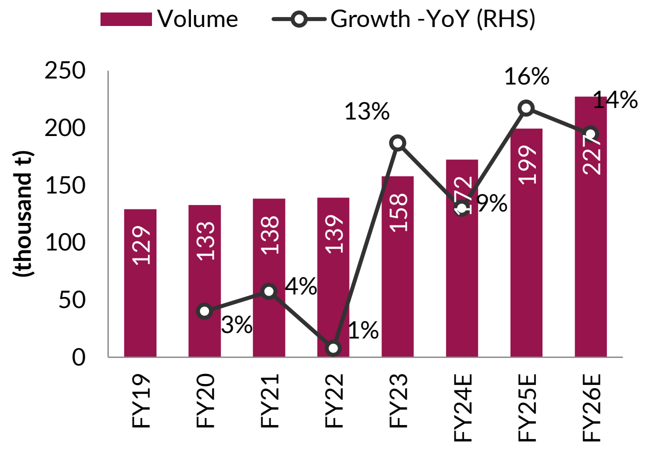
- The FY24E capex guidance stands at Rs 1.5-1.6 bn, including Rs 700-800 mn for the greenfield plant at Bihar and the remainder for debottlenecking and maintenance. Maintenance capex usually ranges at Rs 300-400 mn per annum.

- Construction of the Rs 1.5 bn greenfield capacity expansion in the eastern region in Begusarai, Bihar, has commenced and is expected to be completed by 4QFY25. This will have an initial capacity of 35k-40 KT per annum and will cater to the East India market. The company will initially manufacture PVC pipes (higher focus towards plumbing segment) and small facility of fittings (across PVC, CPVC and HDPE). It will gradually add other categories such as CPVC pipes and storage tanks. At present, the East market is serviced partially through outsourced capacity and the Haridwar plant.
- The company can add brownfield capacity at Jaipur, Telangana, Haridwar, and Agra. It cannot add any major capacity in Athal, Kolhapur, and Chennai. It takes three to four months to add brownfield capacity. Prince Pipes has planned to increase HDPE capacity in Jaipur (in line with its objective of benefitting from the current uptrend in infrastructure segment demand due to the government's focus).
- Prince Pipes is also setting up brownfield water tank machinery in Haridwar and Chennai (COD H2FY24). This will take water tank manufacturing to five plants from three currently.
- Management is also looking to start faucet manufacturing in-house in the next 12-18 months and is actively looking to acquire already-operational plants.

Expect 30% EPS CAGR over FY23-26E (19% over FY24-26E)

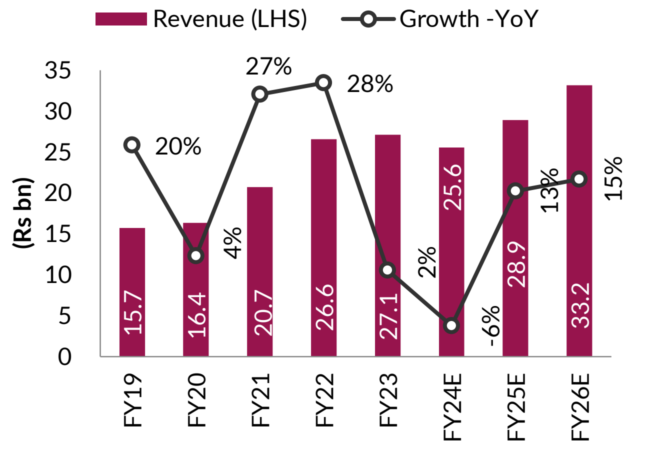
We expect Prince Pipes to see 13% and 15% volume CAGRs over FY23-26E and FY24-26E, respectively. However, decline in realization (due to PVC and CPVC price correction) will restrict the revenue CAGRs to 7% and 14%, respectively. We expect a 310 bps YoY EBITDA margin expansion in FY24E on a low FY23 base (Rs 1.2 bn inventory loss in FY23) and build in EBITDA/kg of Rs 18.3 for FY24E (ex-inventory loss Rs 18.6). Further, we expect operating leverage to drive a 150 bps EBITDA margin expansion to 13.8% through FY24-26E, and EBITDA/kg to increase to Rs 20.2 by FY26E. We expect 22% EBITDA and 30% EPS CAGRs over FY23-26E, and 21% EBITDA and 19% EPS CAGRs over FY24-26E.

Exhibit 66: Prince Pipes – volume growth trend



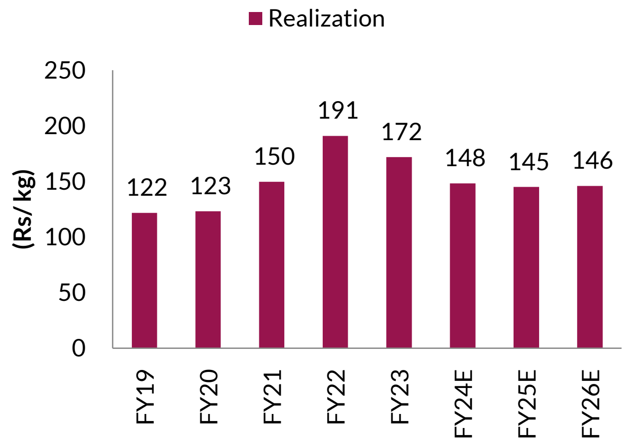
Source: Company, Axis Capital

Exhibit 67: Prince Pipes – revenue growth trend



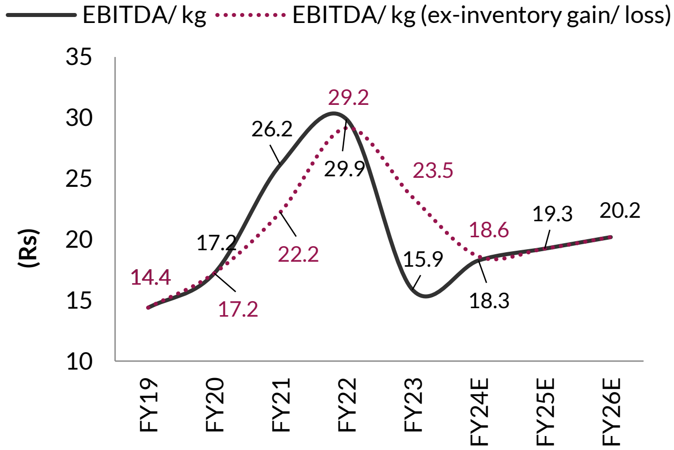
Source: Company, Axis Capital

Exhibit 68: Prince Pipes – realization trend



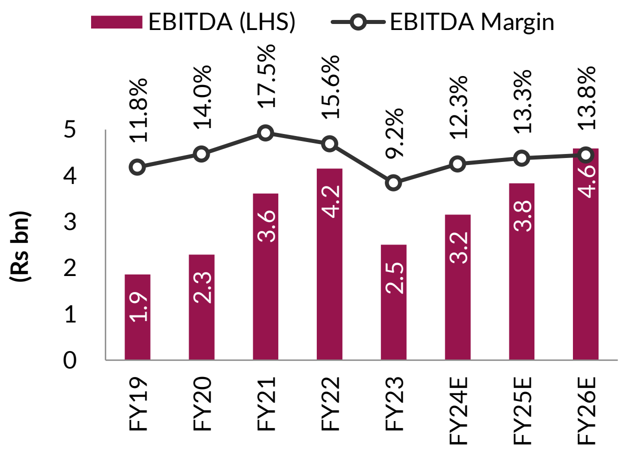
Source: Company, Axis Capital

Exhibit 69: Prince Pipes – EBITDA/kg trend



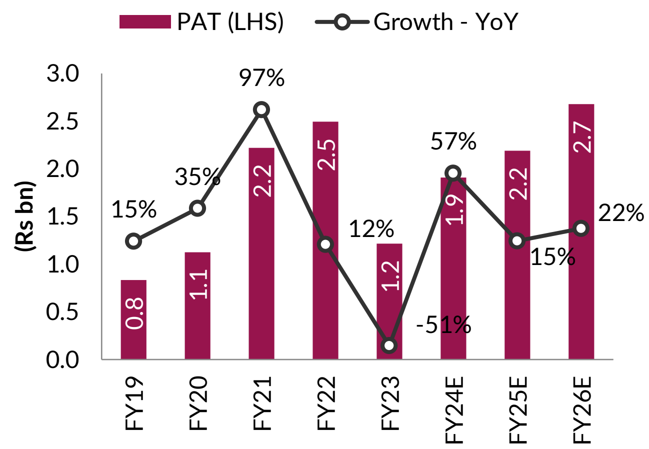
Source: Company, Axis Capital

Exhibit 70: Prince Pipes – EBITDA and EBITDA margin trends



Source: Company, Axis Capital

Exhibit 71: Prince Pipes – PAT growth



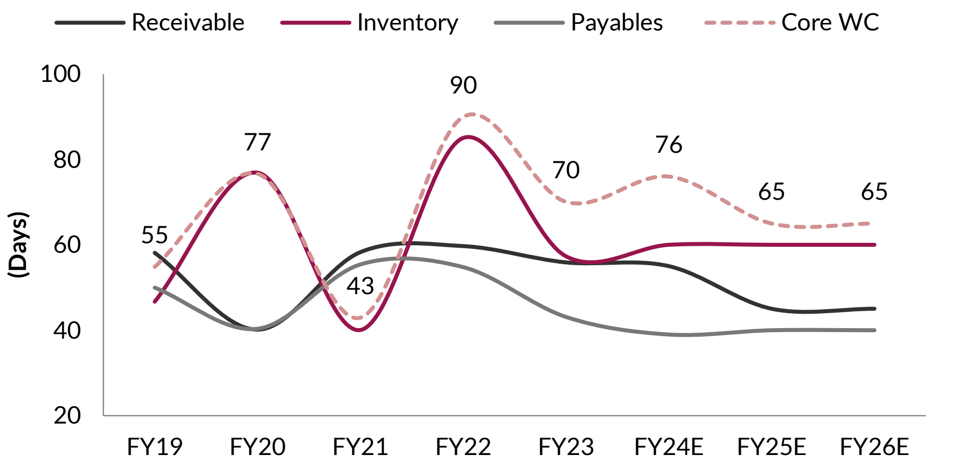
Source: Company, Axis Capital

Working capital to reduce, channel financing is now without recourse

As of end-Mar'23, core working capital stood at 70 days, with receivables at 56 days, inventory at 57 days, and payables at 43 days. Management is using channel financing to lower the receivable days to the mid-40s level. Inventory days are expected to be stable at 60 days. Payable days reduce when domestic sourcing increases (as domestic purchases are on cash-and-carry model) and increase when sourcing from international markets is higher (60 days of credit from international markets). Payable days are expected to stay low at 40 days in FY24E, as management intends to keep domestic sourcing at higher levels.

We expect core working capital to reduce to 65 days by end-Mar'26E, led by reduction in receivables days. As of Q2FY24-end, the company had a channel financing sanction limit of Rs 1.3 bn and the recourse has completely shifted to the distributors.

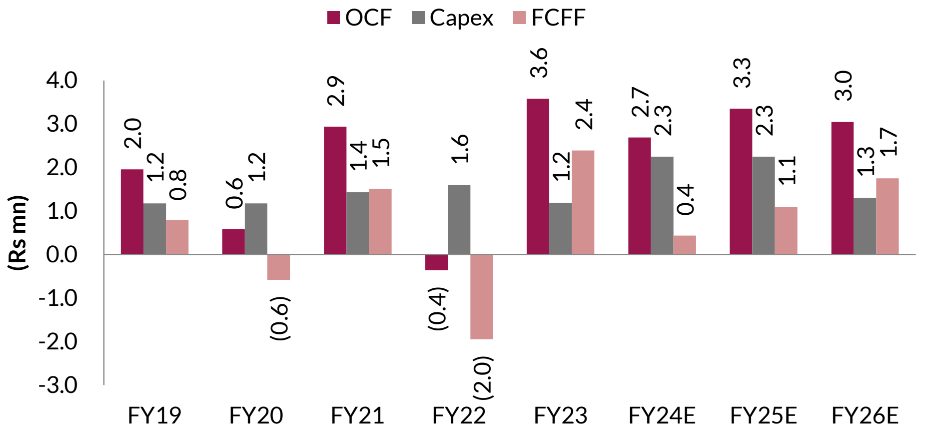
Exhibit 72: Prince Pipes – working capital days



Source: Company, Axis Capital

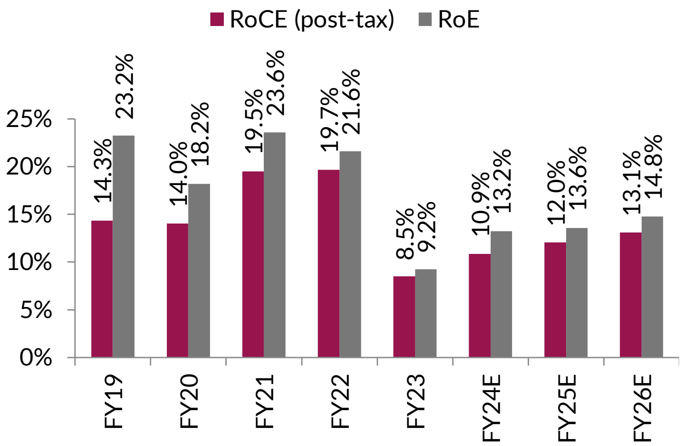
Prince Pipes will generate Rs 3.3 bn FCFF over FY24-26E and an average RoE of 13.9%.

Exhibit 73: Prince Pipes – OCF, capex, and FCFF trend



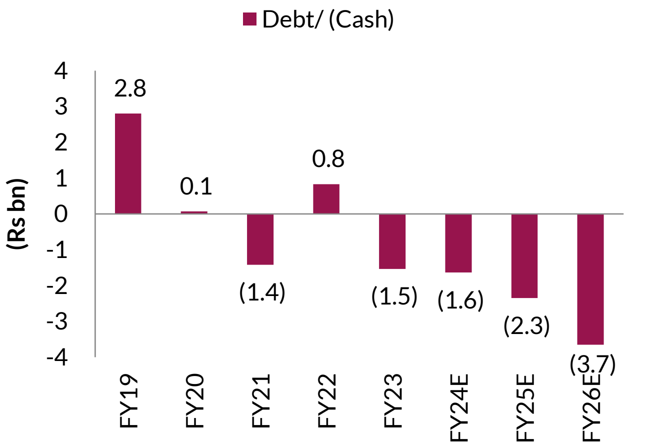
Source: Company, Axis Capital

Exhibit 74: Prince Pipes – RoE and RoCE trend



Source: Company, Axis Capital

Exhibit 75: Prince Pipes – net debt/(cash)



Source: Company, Axis Capital

Key risks

Volume growth surprise led by sooner-than-expected revival in retail segment

Prince Pipes draws 75% of its revenue from retail segment. Though we expect revival in volume growth from this segment, a sooner-than-expected revival could mean increase in our volume growth estimates and realization of better operating leverage.

Sharp increase in raw material prices

Sharp increase in raw material prices leads to inventory gain in the short term and makes it difficult for small-scale players to work with the increased working capital requirements. This in turn leads to better margins and easing competition.

Dependence on a single supplier for CPVC resin

Prince Pipes sources CPVC resin fully from Lubrizol. An alteration in Lubrizol's supply policy or its inability to supply due to production disruption or geopolitical disturbances can impact Prince Pipes's CPVC pipes production.

Financial summary (Consolidated)

Profit & Loss (Rs mn)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,498	27,034	25,563	28,919	33,195
Other operating income	71	74	-	-	-
Total operating income	**26,568**	**27,109**	**25,563**	**28,919**	**33,195**
Cost of goods sold	(18,915)	(20,922)	(18,081)	(20,224)	(23,177)
Gross profit	7,653	6,187	7,482	8,695	10,018
Gross margin (%)	29	23	29	30	30
Total operating expenses	(3,497)	(3,684)	(4,329)	(4,855)	(5,425)
EBITDA	**4,156**	**2,503**	**3,154**	**3,839**	**4,593**
EBITDA margin (%)	16	9	12	13	14
Depreciation	(703)	(830)	(894)	(986)	(1,131)
EBIT	**3,453**	**1,673**	**2,259**	**2,853**	**3,462**
Net interest	(93)	(63)	49	70	121
Other income	9	38	43	47	52
Profit before tax	**3,369**	**1,648**	**2,352**	**2,970**	**3,635**
Total taxation	(875)	(434)	(619)	(782)	(957)
Tax rate (%)	26	26	26	26	26
Profit after tax	2,494	1,214	1,732	2,188	2,678
Minorities	-	-	(3)	-	-
Profit/ Loss associate co(s)	-	-	-	-	-
Adjusted net profit	2,494	1,214	1,729	2,188	2,678
Adj. PAT margin (%)	9	4	7	8	8
Net non-recurring items	-	-	179	-	-

Balance Sheet (Rs mn)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	1,106	1,106	1,106	1,106	1,106
Reserves & surplus	11,547	12,534	14,111	15,912	18,147
Net worth	12,653	13,640	15,216	17,017	19,253
Borrowing	1,500	581	581	581	581
Other non-current liabilities	250	305	305	305	305
Total liabilities	**14,402**	**14,526**	**16,103**	**17,907**	**20,142**
Gross fixed assets	9,144	10,211	11,711	12,461	15,261
Less: Depreciation	(2,703)	(3,451)	(4,345)	(5,331)	(6,462)
Net fixed assets	6,441	6,760	7,366	7,130	8,800
Add: Capital WIP	226	236	986	2,486	986
Total fixed assets	6,667	6,996	8,352	9,616	9,785
Total Investment	17	3	3	3	3
Inventory	6,188	4,256	4,202	4,754	5,457
Debtors	4,346	4,150	3,852	3,565	4,092
Cash & bank	586	1,244	1,347	560	864
Loans & advances	870	554	554	554	554
Current liabilities	4,988	4,016	3,545	3,983	4,452
Net current assets	7,279	7,236	7,457	7,997	10,063
Other non-current assets	439	291	291	291	291
Total assets	**14,402**	**14,526**	**16,103**	**17,907**	**20,142**

Source: Company, Axis Capital

Cash Flow (Rs mn)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	3,369	1,648	2,352	2,970	3,635
Depreciation & Amortisation	703	830	894	986	1,131
Chg in working capital	(3,550)	1,520	(118)	173	(761)
Cash flow from operations	**(363)**	**3,578**	**2,508**	**3,347**	**3,047**
Capital expenditure	(1,589)	(1,190)	(2,250)	(2,250)	(1,300)
Cash flow from investing	**(1,765)**	**(1,803)**	**(2,250)**	**(3,750)**	**(2,300)**
Equity raised/ (repaid)	5	-	-	-	-
Debt raised/ (repaid)	639	(890)	-	-	-
Dividend paid	(386)	-	(332)	(387)	(442)
Cash flow from financing	**363**	**(1,118)**	**(332)**	**(387)**	**(442)**
Net chg in cash	(1,765)	658	(73)	(790)	304

Key Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL					
FDEPS (Rs)	22.6	11.0	15.6	19.8	24.2
CEPS (Rs)	28.9	18.5	25.3	28.7	34.4
DPS (Rs)	3.5	-	3.0	3.5	4.0
Dividend payout ratio (%)	15.5	-	17.4	17.7	16.5
GROWTH					
Net sales (%)	28.1	2.0	(5.4)	13.1	14.8
EBITDA (%)	14.9	(39.8)	26.0	21.7	19.6
Adj net profit (%)	12.4	(51.3)	42.4	26.5	22.4
FDEPS (%)	11.9	(51.3)	42.4	26.5	22.4
PERFORMANCE					
RoE (%)	21.6	9.2	12.0	13.6	14.8
RoCE (%)	26.7	11.8	15.0	17.1	18.5
EFFICIENCY					
Asset turnover (x)	3.3	2.8	2.3	2.4	2.4
Sales/ total assets (x)	1.5	1.4	1.3	1.4	1.4
Working capital/ sales (x)	0.2	0.2	0.2	0.2	0.3
Receivable days	59.9	56.0	55.0	45.0	45.0
Inventory days	100.8	63.1	68.4	69.2	69.6
Payable days	64.9	47.5	44.5	46.1	46.4
FINANCIAL STABILITY					
Total debt/ equity (x)	0.1	0.0	0.0	0.0	0.0
Net debt/ equity (x)	0.1	(0.1)	(0.1)	0.0	0.0
Current ratio (x)	2.5	2.8	3.1	3.0	3.3
Interest cover (x)	37.0	26.7	-	-	-
VALUATION					
PE (x)	31.2	64.1	45.0	35.6	29.1
EV/ EBITDA (x)	18.9	30.8	24.4	20.3	16.9
EV/ Net sales (x)	3.0	2.9	3.0	2.7	2.3
PB (x)	6.2	5.7	5.1	4.6	4.0
Dividend yield (%)	0.5	-	0.4	0.5	0.6
Free cash flow yield (%)	(2.5)	3.1	0.3	1.4	2.2

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BUY	More than 15%
ADD	Between 5% to 15%
REDUCE	Between 5% to -10 %
SELL	More than -10%

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