



Structural, Sustainable & Scalable!

Praveen Sahay praveensahay@plindia.com 91-22-6632 2369

Contents

	Page No.
Overview of Indian Plastic Pipes Industry	5
Fastest growing segment (~12-14%) in building materials.....	5
Organised players gaining market share.....	6
Stabilization in raw materials prices drives volume	8
Outlook: Growth to continue with stabilizing realisation	10
Companies	11
Astral Ltd.	
Story in Charts.....	13
Astral – Wide & Diverse product portfolio	14
Investment Arguments.....	15
Diversified business, become building materials company	15
Pioneered Plumbing Pipe Brand in commoditized market	16
Wide Manufacturing and Distribution Network	16
Relatively higher realization being CPVC focused	18
Stabilization in raw materials prices led volume growth	19
Financials and Valuations.....	20
Estimate CAGR of 14.6% in sales over FY23-25E.....	20
EBITDA and PAT CAGR of 22.4% and 31.2% over FY23-25	21
Valuations.....	23
Key Risks.....	25
Board of Directors and KMP	26
Finolex Industries	
Story in Charts.....	30
Finolex Industries – Backward integrated player	31
Investment Arguments.....	32
Leadership position in agri pipe and strong rural presence	32
Diversify from Agri to plumbing pipe & fittings.....	33
Structural positive fundamental of PVC resin segment	33
Only backward integrated player in PVC piping business	35
Pune land deal to result in special dividend pay-out	36
Financials	37
Piping sales volume of 13.2% CAGR over FY23-25E.....	37
EBITDA margin follow PVC-ECD spread.....	38
EBITDA/PAT expected CAGR of 32%/25.6% over FY23-25	39
Strong balance sheet and Healthy return ratio	39
Valuations.....	42
Key Risks.....	43
Key Management Person	44

Prince Pipes and Fittings

Story in Charts	48
PRINCEPI - Paving way for growth	49
Investment Arguments	51
Pure play of plastic pipe; ready to capture demand	51
Wide product portfolio with multi-location manufacturing	51
Financials	55
Estimate CAGR of 10.2% in revenue over FY23-25E	55
EBITDA & PAT CAGR of 46.5% & 65.9% over FY23-25E	56
Valuation.....	59
Key Risks.....	60
Board of Directors and KMP	61

Supreme Industries

Story in Charts	65
About the Company	66
Investment Arguments	68
Leader in Plastic pipe with significant market share.....	68
SI is well placed to capture growth.....	68
Diversified revenue mix mitigates risk	70
Healthy expansion plan.....	71
Benefit with PVC resin price stabilisation	72
Financials and Valuations.....	73
Estimate CAGR of 11.2% in revenue over FY23-25E	73
EBITDA & PAT CAGR of 23.9% and 21.5% over FY23-25E	73
Valuations	75
Key Risks.....	77
Board of Director & KMP	78

March 1, 2023

Companies Covered in the Report

Companies	Rating	CMP (Rs)	TP (Rs)
Astral Ltd.	BUY	1,889	2,160
Finolex Industries	BUY	169	224
Prince Pipes & Fittings	BUY	552	693
Supreme Industries	BUY	2,761	3,177

Source: PL

Structural, Sustainable & Scalable!

Home building materials market (plastic pipes, tiles, wood panel, sanitaryware and faucets) is estimated to touch Rs 2.7tn by FY26 from Rs 1.3tn in FY22. During CY13-20, the sector was impacted by real estate slowdown, GST implementation and demonetization & Covid-19 pandemic over FY16-21, which resulted in single digit growth CAGR of ~6% during same period. The plastic pipe sector, however, has grown at 10% CAGR over FY13-21. Considering strong underlying demand along with healthy growth momentum, we initiate coverage on Astral, Finolex Industries, Prince Pipe and Supreme Industries underpinned by (a) healthy growth in real estate sector, (b) increased government spending on irrigation, WSS and urban infrastructure; (c) benefits from industry consolidation; and (d) shift from unorganized to organized market, due to geographical expansions of large organized players. We expect ASTRA/FXNP/PRINCEPI/SI to clock Revenue/EBITDA/PAT CAGR of 14.6%/ 22.4%/ 31.2%, 7.7%/ 31.9%/ 25.6%, 10.2%/ 46.5%/ 65.9% and 11.2%/ 23.9%/ 21.5% respectively over FY23-25E. Initiate 'BUY' on DCF based TP of Rs2,160 (59x FY25E EPS) for ASTRA, on SOTP based TP of Rs224 (21x FY25E EPS) for FXNP, Rs693 (27x FY25E EPS) for PRINCEPI and Rs3,169 (34x FY25E EPS) for SI.

- Long term positive outlook on real estate to benefit building materials:**
 The Indian real estate sector grew at ~10% CAGR from USD50bn in 2008 to USD120bn in 2017 and is expected to grow at ~17.7% CAGR to USD1tn by 2030. The key structural growth drivers for Indian real estate market are rising per capita income, improved affordability, large young population base, rapid urbanization and emergence of nuclear families. Demand for home building materials such as pipe & fittings, sanitaryware & faucets, ceramic and wood panel are correlated to real estate market's growth. Thus, we believe that plastic pipe sector is expected to deliver healthy growth over long-term.
- Healthy volume growth post stabilization in raw material prices:** Plastic pipe industry has seen sharp recovery post pandemic. Organized players being well placed to handle fluctuations in PVC resin prices (main raw material) have gained significant market share. The correction in raw material prices, mainly PVC resin prices fell by 57% from recent peak of Aug-21 to Nov-22 and then stabilization in prices at Rs 85-90/kg, are expected to drive the volume.
- Plastic pipes industry – fastest growing segment in building materials:**
 The market for plastic pipes is valued at approximately Rs400bn, with organized players accounting for ~67% of the market. By end-use, 50-55% of the industry's demand is accounted by plumbing pipes used in residential and commercial real estate, 35% by agriculture and 5-10% by infrastructure & industrial projects. Industry grew at 10-12% CAGR between FY15-20, while demand is anticipated to expand at 12-14% CAGR between FY21-25 and is expected to reach more than Rs 600bn by FY25E led by sharp increase in government spending for irrigation, WSS projects (water supply and sanitation), urban infrastructure and replacement demand. We initiate coverage on plastic pipe sector with BUY ratings on Astral, Finolex Industries, Prince Pipe and Supreme Industries.

Praveen Sahay
praveensahay@plindia.com | 91-22-66322369

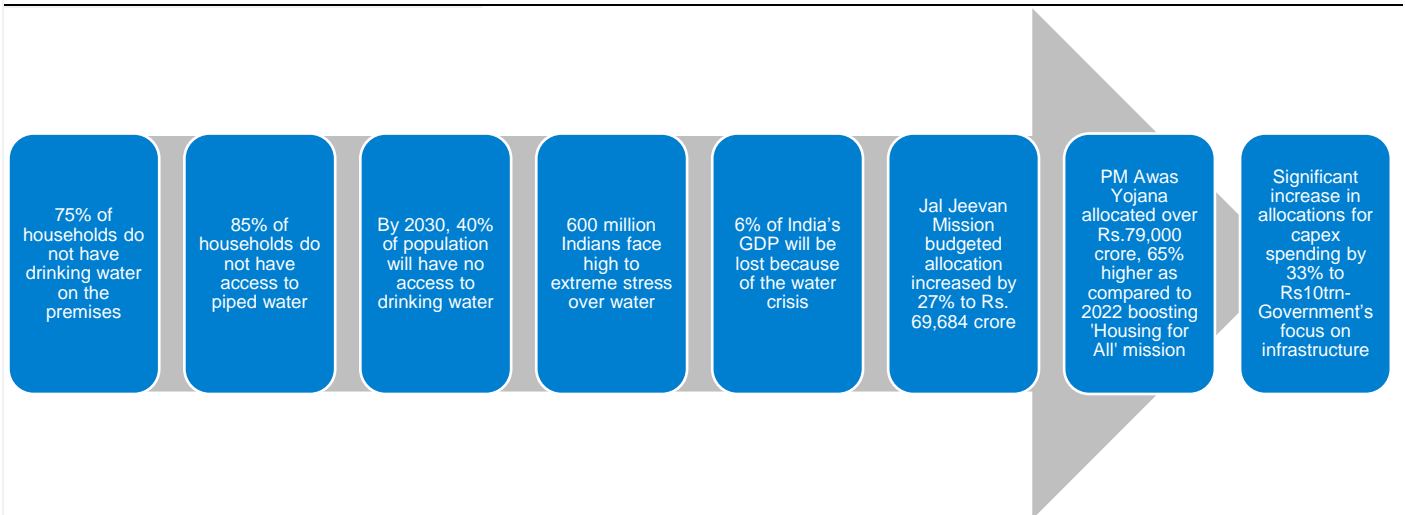
Overview of Indian Plastic Pipes Industry

Fastest growing segment (~12-14%) in building materials

Organized players accounting for ~68%

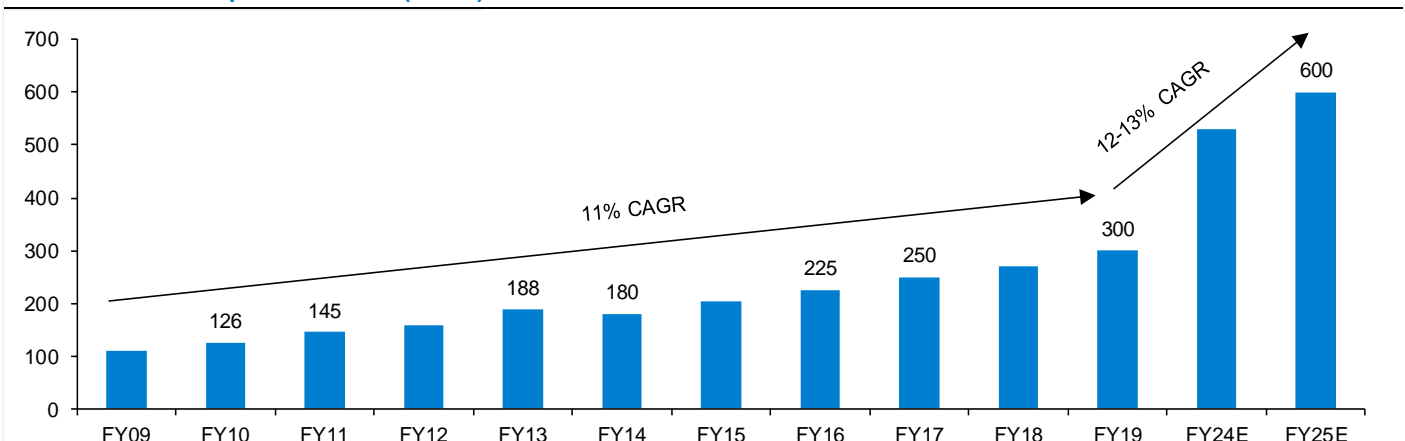
Indian plastic pipes industry has historically grown faster than the GDP led by multiple factors like real estate, irrigation, urban infrastructure and sanitation projects. Then increased awareness, adoption and replacement of metal pipes with plastic pipes have also aided this growth. Currently, plastic pipes market is valued at ~Rs 400bn with organized players accounting for ~67% of the market. By end-use, 50-55% of the industry's demand is accounted by plumbing pipes used in residential & commercial real estate, 35% by agriculture and 5-10% by infrastructure and industrial projects. Going ahead, domestic pipes industry growth is projected to witness higher CAGR against the past. Between FY09-21 industry grew at 10%-12% CAGR, while demand is anticipated to expand at 12%-14% CAGR between FY21-25 and more than Rs 600bn by FY25E led by a sharp increase in government spending on irrigation, WSS projects (water supply and sanitation), urban infrastructure and replacement demand.

Exhibit 1: Plastic pipe sector – Multiple tailwinds for growth



Source: Company, PL

Exhibit 2: Plastic Pipe Market Size (Rs bn)



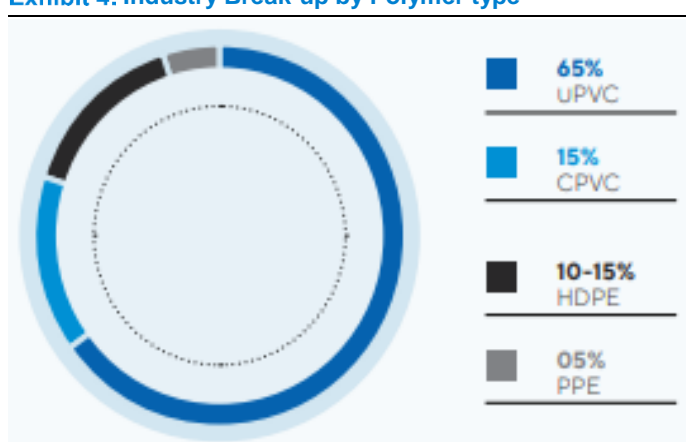
Source: Company, PL

Exhibit 3: Industry size – Product wise

Types of Pipes	Industry Size - FY21 (Rs bn)	FY20-24 CAGR	Application
UPVC pipes	254	8-9%	<ul style="list-style-type: none"> • Irrigation • Cold water plumbing • Drainage
CPVC pipes	65	15-17%	<ul style="list-style-type: none"> • Hot and cold-water system • Industrial applications
HDPE/DWC pipes	60	10-11%	<ul style="list-style-type: none"> • Underground drainage structured wall • WSS solid wall
PPR pipes	21	6-7%	<ul style="list-style-type: none"> • Hot and cold-water systems • Industrial applications
Composite pipes	NA		<ul style="list-style-type: none"> • Hot and cold-water systems • Gas pipeline • Industrial applications

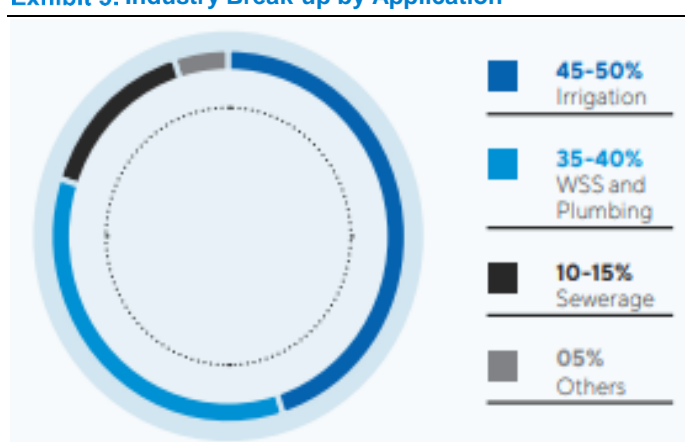
Source: Company, PL

Exhibit 4: Industry Break-up by Polymer type



Source: Company, PL

Exhibit 5: Industry Break-up by Application



Source: Company, PL

Organised players gaining market share

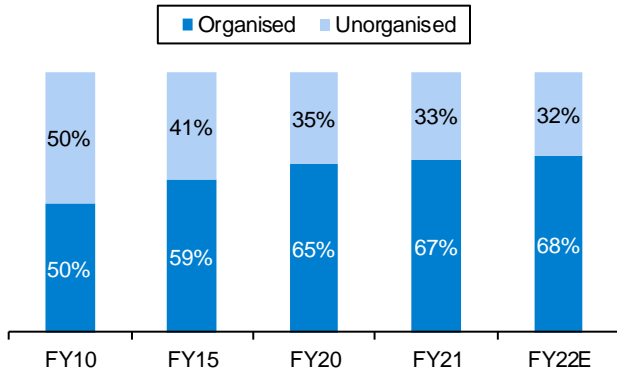
Plastic pipe industry has seen sharp recovery post pandemic. Organised players being well placed to handle fluctuations in PVC resin prices (main raw material) have gained significant market share. They delivered positive volume growth in the last two years, on account of healthy demand traction in real estate and construction activity, despite fluctuation in realisations. However, agricultural piping demand remains impacted due to pandemic.

Industry has been growing at a four year CAGR of 12% irrespective of general economy performance and pandemic impact. With branded players outperforming industry growth, revenues (only plastic piping segment) from key branded players like Astral, Finolex Industries, Supreme Industries, Apollo pipe & Prince pipe have shown an impressive 19%, 13%, 17%, 29% and 19% CAGR over FY18-22.

Growth momentum of branded players is expected to continue, driven by strong underlying demand and venturing of allied products. However, margins were under pressure due to fluctuation in PVC resin prices in recent past quarters. However, with the stabilization in raw material prices, margins expected to be normalized. Additionally, deleveraging of balance sheet would result in maintaining or even firming up of high return ratios. We estimate India's plastic pipes market to be at ~Rs600bn by FY25E (12% CAGR growth for FY19-FY25E).

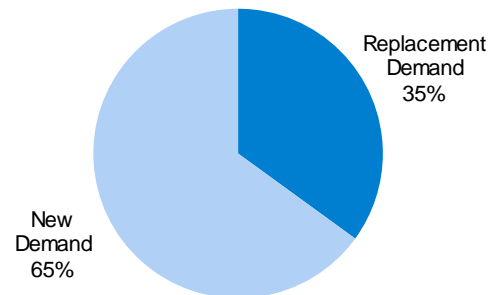
Branded organized players outperform the sector growth

Exhibit 6: Plastic Pipe Market Dominated by Org. Sector



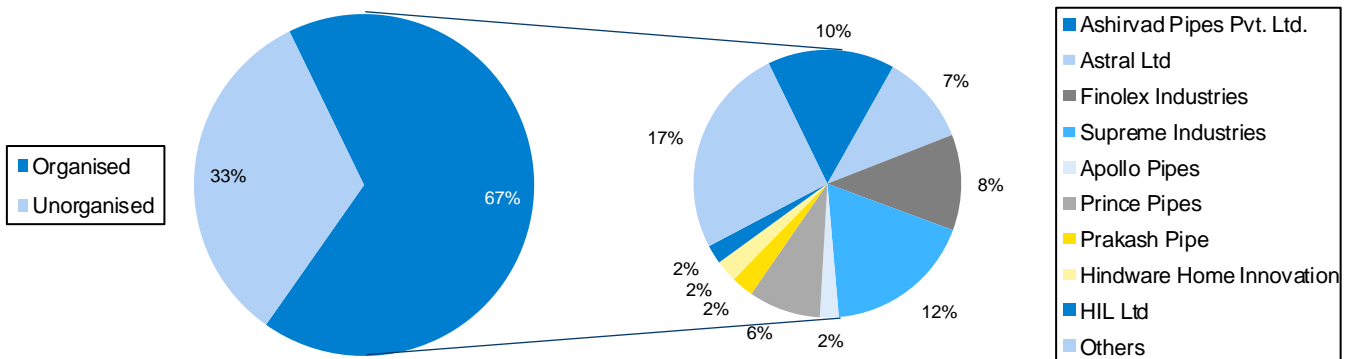
Source: Industry, PL

Exhibit 7: Plastic Pipe Demand Split (FY21)



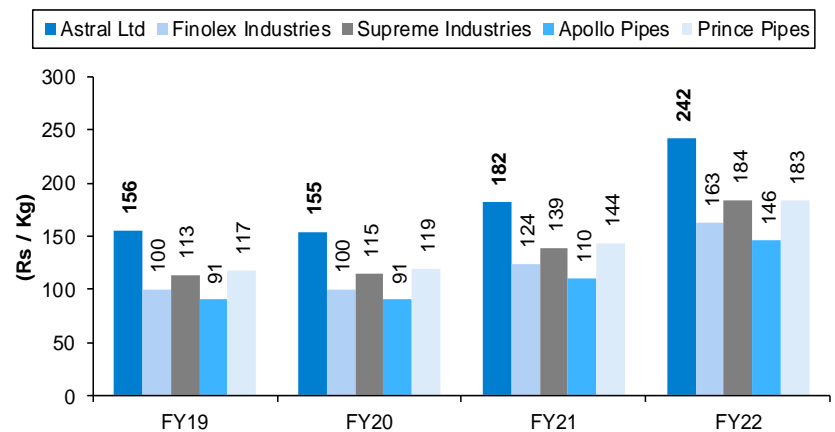
Source: Industry, PL

Exhibit 8: Value market share (FY21)



Source: Company, PL

Exhibit 9: Pipe Realisation reflects product mix



Source: Company, PL

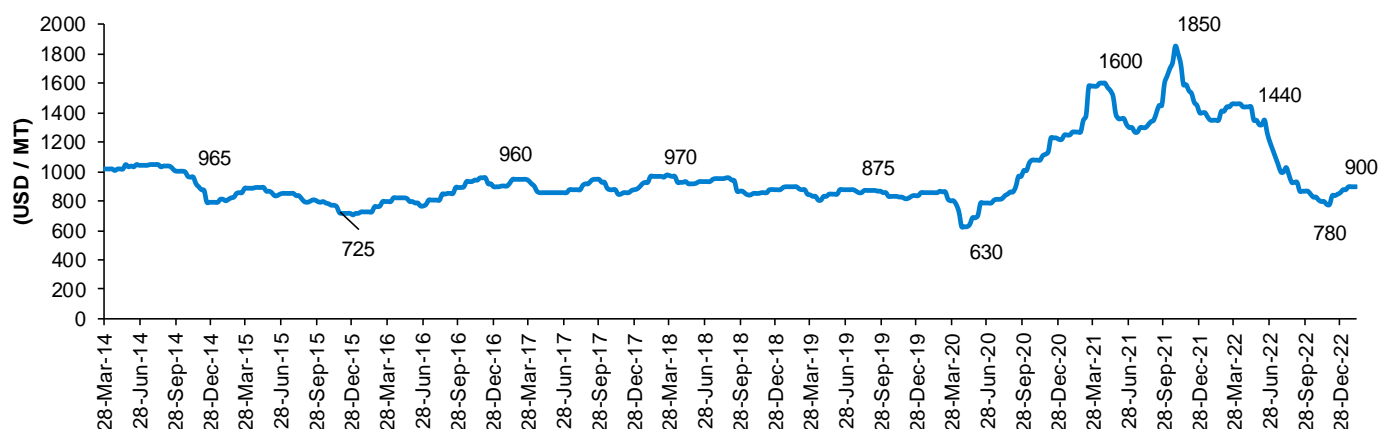
Stabilization in raw materials prices drives volume

Polyethylene (PE), PPR, polyvinyl chloride (PVC) and chlorinated polyvinyl chloride (CPVC) resin are the key raw materials used in the plastic pipes industry; their prices are dependent on crude oil price movements and global demand-supply dynamics. These raw materials form 65-70% of plastic pipe industry sales.

- Major polymer prices have significantly fallen in the recent past, mainly PVC resin prices fell by 58% from recent peak of Oct-21 to Nov-22 and then stabilised at USD 850-900/MT; this is expected to drive volumes in the near term. Fluctuation in raw material prices have restricted demand, which will go away with stability in prices.
- PVC resin – the major raw material in pipe industry, corrected to pre-pandemic level and is not expected to go down further. It increased by Rs 15/kg in Dec-2022.
- Industry relies 50-55% of PVC resin requirement on imports from Taiwan, Japan, South Korea and China and rest from Indian manufacturer like Reliance Ind, DCM Sriram, Chemplast etc.
- CPVC requirements are also met through import mostly from South Korea, Japan, China and Europe majorly from four manufacturers.
- 1) Volatile international prices, 2) exchange rate fluctuations and 3) supply chain management, provides organised players an upper hand to compare with unorganized players in the risk management because they enjoy established long term relationships with RM suppliers. This leads to market share gain for organised players.

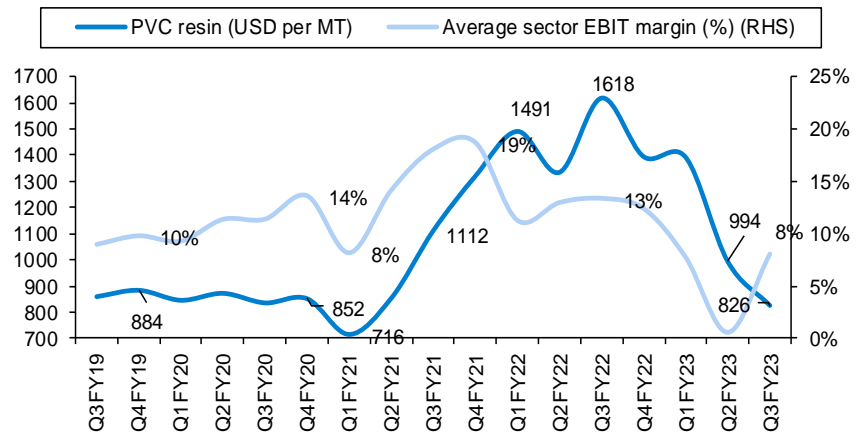
PVC resin prices increased by Rs 15/Kg in Dec-22

Exhibit 10: Significant correction in PVC resin prices, expected to improve volume



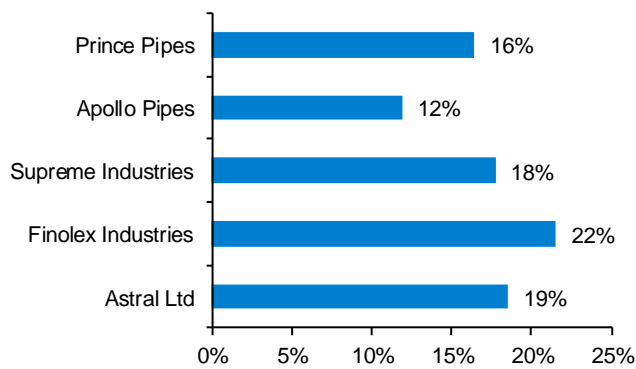
Source: Company, PL

Exhibit 11: Sector margin depends on PVC resin prices



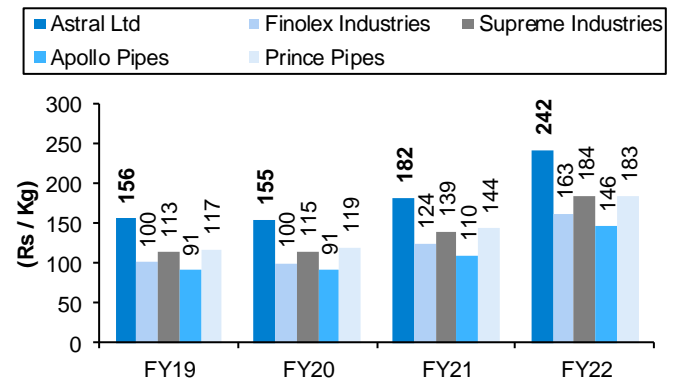
Source: Company, PL

Exhibit 12: EBITDA margins – Pipe & fittings segment (FY22)



Source: Company, PL

Exhibit 13: Pipes & fitting segment – EBITDA per Kg



Source: Company, PL

Outlook: Growth to continue with stabilizing realisation

The plastic pipe sector and branded players are expected to deliver healthy growth in next 3-5 years on account of (a) healthy growth in real estate, (b) increased government spending on irrigation, WSS and urban infrastructure; (c) benefits from industry consolidation; and (d) shift from unorganized to organized market due to geographical expansions of large organized players. Recently, global PVC resin price has come back to USD 850-900/MT. Domestic PVC resin prices were Rs 85-90/kg vs pre-pandemic of Rs 75-80/kg. We expect the sector's earnings to bottom-out in Q2/Q3FY23 and with stability in PVC resin prices, volumes are expected to improve. We are positive on the sector over medium to long term on account of strong volume growth visibility over 2-3 years and healthy return ratios. We initiate coverage on Astral, Finolex Industries, Prince Pipe and Supreme Industries with 'BUY' rating.

Exhibit 14: Pipes & fitting segment – Peer comparison

Companies	Revenue (Rs mn)				EBITDA (Rs mn)				EBITDAM (%)				EPS (Rs)			
	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Astral Ltd	43,940	52,097	59,252	68,433	7,553	7,679	9,658	11,497	17.2	14.7	16.3	16.8	24.2	21.3	29.6	36.6
Finolex Industries	46,473	45,384	47,503	52,691	10,385	4,867	7,648	8,462	22.3	10.7	16.1	16.1	17.4	6.5	9.2	10.2
Prince Pipes	26,568	27,879	30,476	33,839	4,188	2,225	4,026	4,775	15.8	8.0	13.2	14.1	22.6	9.2	20.8	25.4
Supreme Industries	77,728	90,866	1,01,741	1,12,327	12,421	11,249	14,843	17,265	16.0	12.4	14.6	15.4	76.3	63.0	80.2	92.9

Source: Company, PL

Exhibit 15: Pipes & fitting segment – Valuation comparison

Company	M Cap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	PER (x)			Target PER (x) FY25E	RoCE (%)			Sales CAGR (%) FY22-25E	EPS CAGR (%) FY22-25E	Return expectation
					FY23E	FY24E	FY25E		FY23E	FY24E	FY25E			
Astral Ltd	375	1867	BUY	2,160	88	63	51	59x	23.1	25.6	26.2	15.9	14.9	16%
Finolex Industries	106	170	BUY	224	26	19	17	21x	11.8	17.3	18.0	4.3	-16.3	32%
Prince Pipe	63	574	BUY	693	62	28	23	27x	10.3	20.3	21.5	8.4	4.0	21%
Supreme Industries	346	2727	BUY	3,169	43	34	29	34x	21.7	25.7	25.7	13.1	6.8	16%

Source: Company, PL



Companies

March 1, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	43,940	52,097	59,252	68,433
EBITDA (Rs. m)	7,553	7,679	9,658	11,497
Margin (%)	17.2	14.7	16.3	16.8
PAT (Rs. m)	4,857	4,275	5,957	7,363
EPS (Rs.)	24.2	21.3	29.6	36.6
Gr. (%)	17.0	(12.0)	39.4	23.6
DPS (Rs.)	1.7	2.0	2.0	2.0
Yield (%)	0.1	0.1	0.1	0.1
RoE (%)	22.7	16.7	19.7	20.1
RoCE (%)	29.9	23.1	25.6	26.2
EV/Sales (x)	8.5	7.1	6.2	5.3
EV/EBITDA (x)	49.5	48.3	37.9	31.3
PE (x)	78.2	88.8	63.7	51.6
P/BV (x)	16.1	13.8	11.5	9.5

Key Data

ASTL.BO | ASTRA IN

52-W High / Low	Rs.2,655 / Rs.1,582
Sensex / Nifty	58,962 / 17,304
Market Cap	Rs.380bn/ \$ 4,602m
Shares Outstanding	201m
3M Avg. Daily Value	Rs.918.54m

Shareholding Pattern (%)

Promoter's	55.85
Foreign	14.88
Domestic Institution	15.23
Public & Others	14.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.0)	(9.7)	(2.7)
Relative	(7.1)	(8.9)	(7.2)

Praveen Sahay

praveensahay@plindia.com | 91-22-66322369

Astral Ltd. (ASTRA IN)

Rating: BUY | CMP: Rs1,889 | TP: Rs2,160

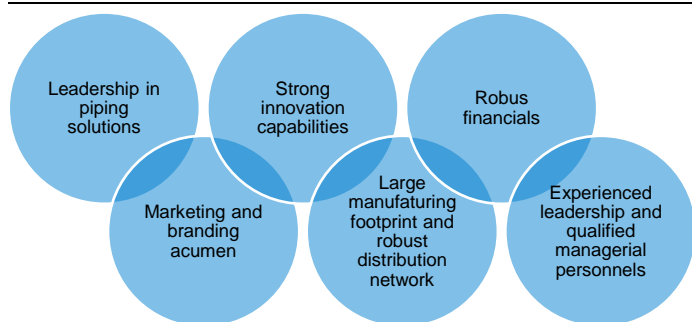
Complete home building materials company

We initiate coverage on Astral Ltd (Astral) with 'BUY' rating at target price of Rs2,160. Astral is a consistent quality performer and we believe that it is a compounding story given its (a) strong market-share gains in core plastic piping business (~200bps over FY20-22), (b) strong brand positioning, (c) new product launches (like recent entry into faucets and sanitaryware, tanks, infra pipe, DWV piping system, valves and paints) to continuously increase addressable markets, (d) strong cash flow (FCF of Rs2bn in FY22) besides net debt-free balance sheet with improved working capital (~21days) and (e) robust growth in adhesive business (19.3% CAGR over FY17-22). We estimate Sales/EBITDA/PAT to grow at CAGR of 14.6%/22.4%/31.2% over FY23-25E. We value the stock on DCF to arrive at a target price of Rs2,160. Initiate 'BUY'.

- Complete building materials company:** Astral is the domestic market leader in niche CPVC pipes & fittings market. From being a growth-focused company it has successfully diversified from being a pipes and fittings manufacturer to home building products player. The company successfully integrated earlier acquisitions of adhesive businesses and became second largest adhesives/construction chemicals franchise in India. It also entered into corrugated pipes segment (via REX acquisition), water tank business, sanitary & faucet business and paint business (Gems paint acquisition). Innovations, proven track record and execution prowess helped Astral to not only entrench its position in domestic market, but also enhance presence in newer markets. We expect its plastic business (pipes & fittings and tanks) to be at ~70% of its sales by FY25E from ~79% in FY16, given diversification in business.
- Robust distribution network with deep brand pedigree:** Astral has a continuously increasing large distribution network across India comprising of 1,80,000+ dealers and 2,535+ distributors (up from 28,000 plus dealers and 750 plus distributors in FY18 given strong competitive advantage). The company has comprehensive manufacturing infrastructure with 18 manufacturing facilities worldwide. Astral's focus on branding through brand ambassadors, pioneered branding in commodity market, spending nearly 3-3.5% of its sales towards advertisement and sales promotion (significantly higher than its peers) has in-turn benefited the company to gain market share and grow faster than its peers.
- Benefit from stabilization in raw materials prices:** With stabilization in raw material prices, the company is expected to see improvement in volumes and is confident of maintaining 15%+ operating margins for the future. Astral has healthy mix of raw materials procurements in domestic vs export (skewed towards domestic), which can mitigate currency risk to some extent. The company has also diversified its business (in CPVC pipe, adhesive, paints etc), thus impact of one raw material movement is comparatively lower than one RM based manufacturer e.g. PVC resin.

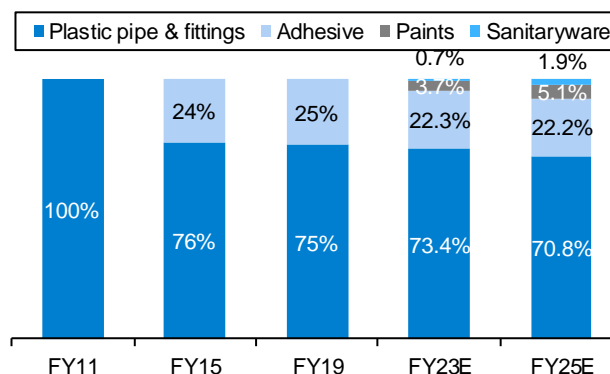
Story in Charts

Exhibit 16: Astral – Key Strengths



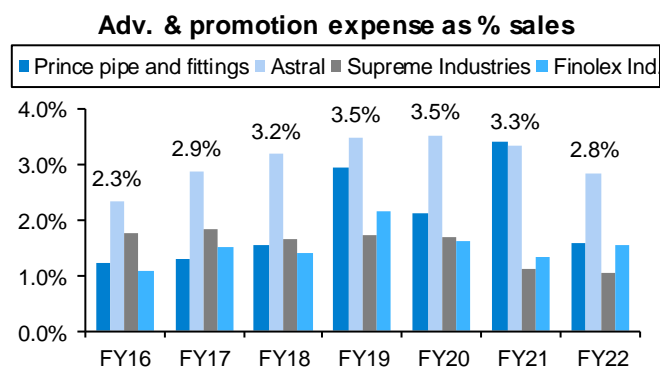
Source: Company, PL

Exhibit 17: Transitioning to a building materials company



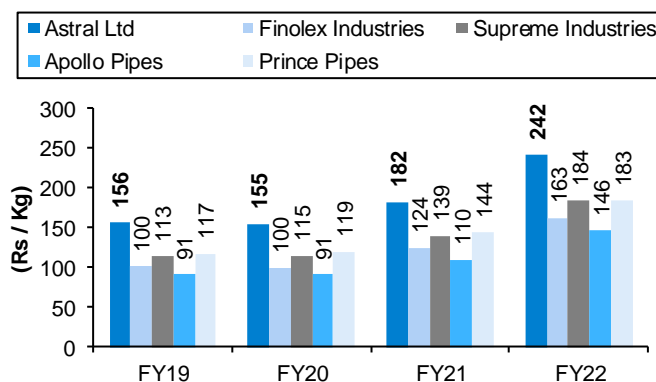
Source: Company, PL

Exhibit 18: Astral - Brand focus to drive market share



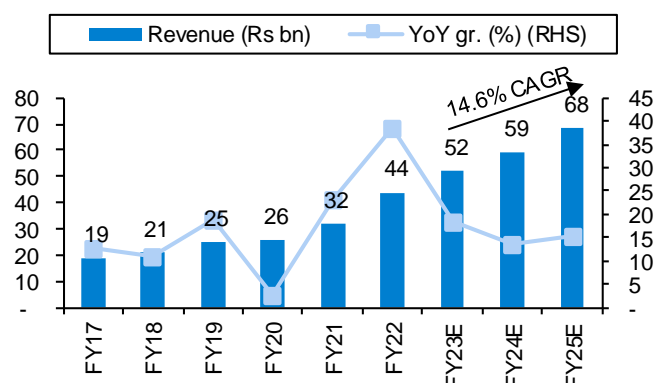
Source: Company, PL

Exhibit 19: Astral has better realization among listed peers



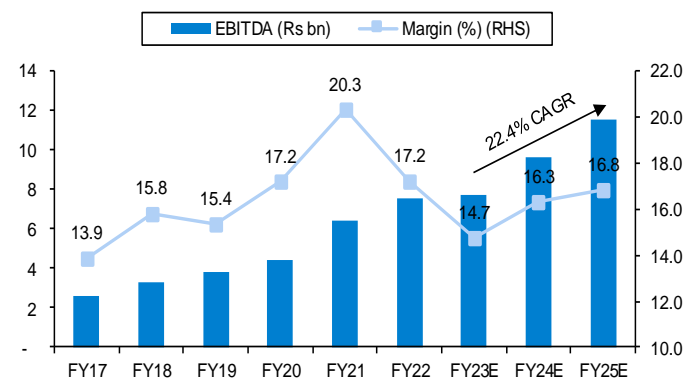
Source: Company, PL

Exhibit 20: Exhibit 24: Revenues CAGR of 14.6% over FY23-25



Source: Company, PL

Exhibit 21: EBITDA margin to improve with product mix



Source: Company, PL

Astral – Wide & Diverse product portfolio

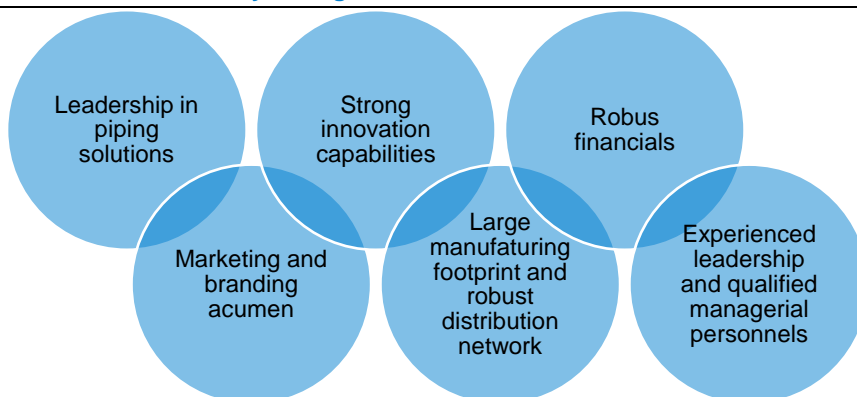
Astral is market leader in domestic niche market of CPVC pipes and fittings. It is the first company that enjoys an advantage of being a pioneer in introducing such products to Indian market. It is the only backward integrated CPVC player in India having product related tie-ups with global players. The group complements its CPVC products with PVC products. Underpinned by an established and long existence, Astral is highly recognized brand with entrenched market presence. Moreover, the company is well on its way in becoming a home building products company. From being a producer of plumbing pipes, Astral has over time expanded its product range into adjacent categories like drainage pipes, fire sprinkler pipes, adhesives, sanitaryware & faucets and storage water tanks, in order to create new markets and gain sizable market share.

Exhibit 22: Astral presence



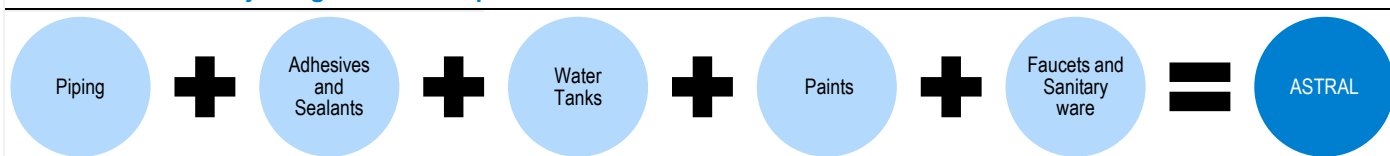
Source: Company, PL

Exhibit 23: Astral – Key Strengths



Source: Company, PL

Exhibit 24: Astral major segments – Complement each other



Source: Company, PL

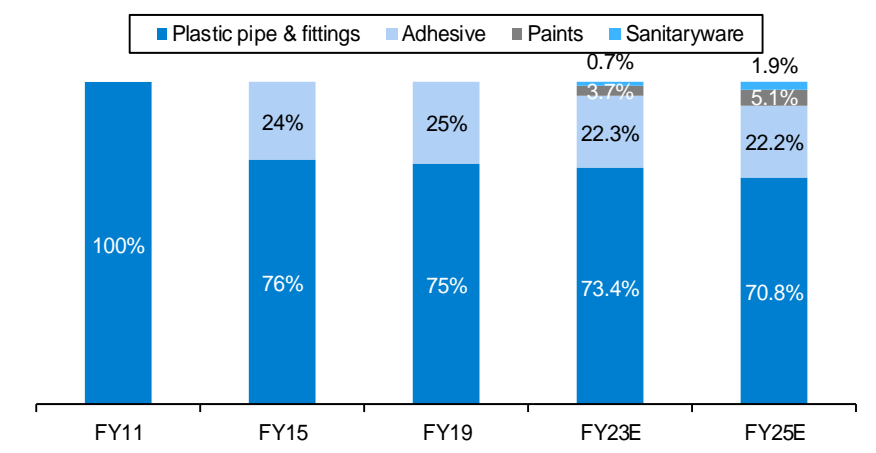
Investment Arguments

Diversified business, become building materials company

Astral is a growth-focused company and has successfully diversified from being a pipes & fitting manufacturer to a home building products player by entering in 1) adhesives business via acquisition of Resinova Chemie and Seal IT Services in FY15, 2) HDPE corrugated pipe through acquisition of Rex Polyextrusion in FY18, 3) water tank business by acquiring Shree Prabhu Petrochemical (SARITA brand) in Nov-20, 4) sanitaryware & faucets business in Oct-21 and 5) paints business through acquisition of Gem Paints in Apr-22. The company has successfully integrated earlier acquisitions of adhesive businesses and become second-largest adhesives/construction chemicals franchise in India.

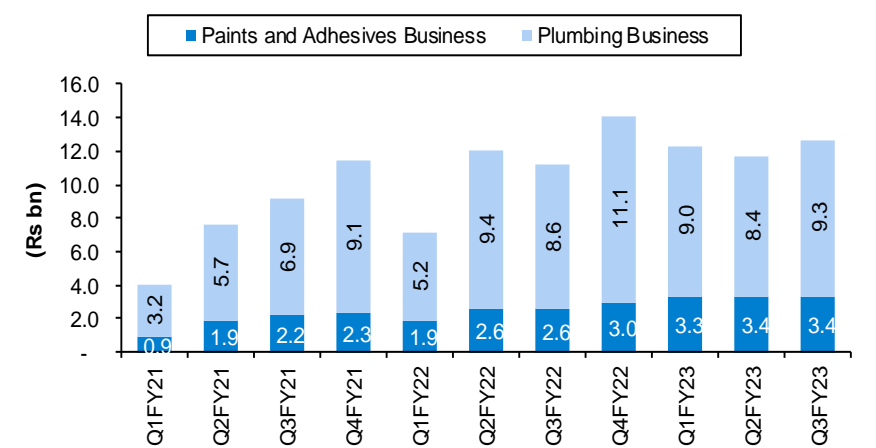
The plumbing business (pipes & fittings and tanks) is expected to be at ~70% of its sales by FY25E from ~79% in FY16 with increase in share of adhesive, paints and sanitaryware & faucets businesses. The company believes in creating brands and identifying growth opportunities where it can deploy strong operating cash flow, which will bring healthy growth in future. The company has demonstrated this with successful creation of Astral brand in CPVC pipes and also by achieving scale in its adhesive business through Astral adhesive and Resinova brands.

Exhibit 25: Transitioning to a building materials company



Source: Company, PL

Exhibit 26: Astral segments revenue breakup

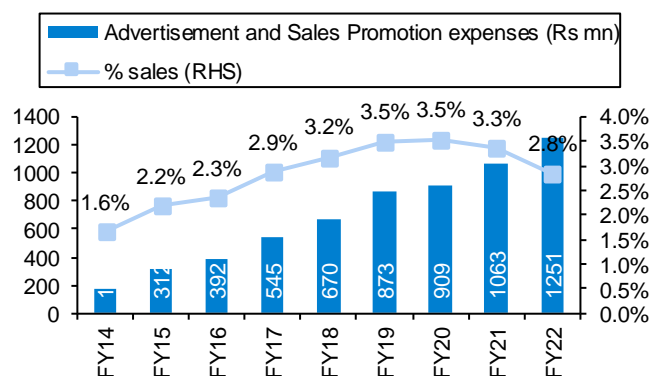


Source: Company, PL

Pioneered Plumbing Pipe Brand in commoditized market

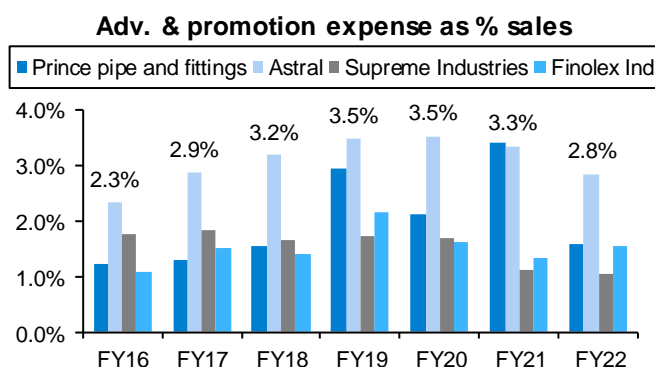
Astral has pioneered in plumbing pipe brand through various branding initiatives, when this segment was treated as commodity. Astral is consistently investing in brand building through various activities digital marketing/physical hoardings, sponsorship, plumber/ architects/ distributors meets, hiring brand ambassadors etc. On a consolidated level, Astral spent nearly 3-3.5% of its sales (on an average) towards advertisement and sales promotion, which is significantly higher than its peers and has in-turn benefited the company to gain market share and grow faster than its peers.

Exhibit 27: Adv. expense % of Sales (Astral)



Source: Company, PL

Exhibit 28: Astral - Brand focus to drive market share



Source: Company, PL

Exhibit 29: Brand Astral – India Ka Bharosemand Pipe



Source: Company, PL

Exhibit 30: Brand Astral – ALWAYS ASTRAL



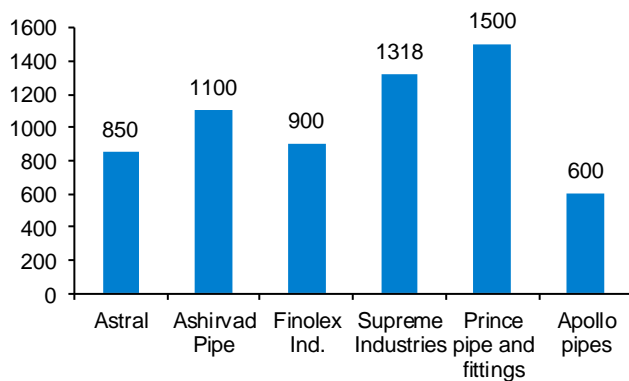
Source: Company, PL

Wide Manufacturing and Distribution Network

- Astral has a large distribution network across India and is continuously increasing. Currently, it has distribution network of 1,80,000+ dealers and 2,535+ distributors (up from 28,000 plus dealers and 750 plus distributors in FY18) given strong competitive advantage. The company has an in-house marketing team to service this extensive network of dealers and distributors. Astral's diversified product portfolio is well complemented by its established and widespread network of dealers and distributors across India.

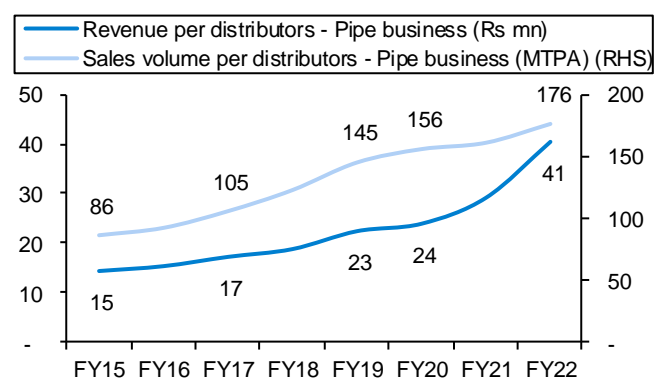
- The company has comprehensive manufacturing infrastructure spread across seven states in all four Indian regions and in UK & USA with 18 manufacturing facilities worldwide.
- The company has been strong in West India in the past. In recent years, Astral also improved its position in South and East India with new plants as a part of its decentralization strategy. Pipes and fittings are a part of bulk items with high logistics costs. Hence a wide manufacturing footprint is needed to provide high service levels to distributors and maintain low cost of operation.

Exhibit 31: Distribution network of major players



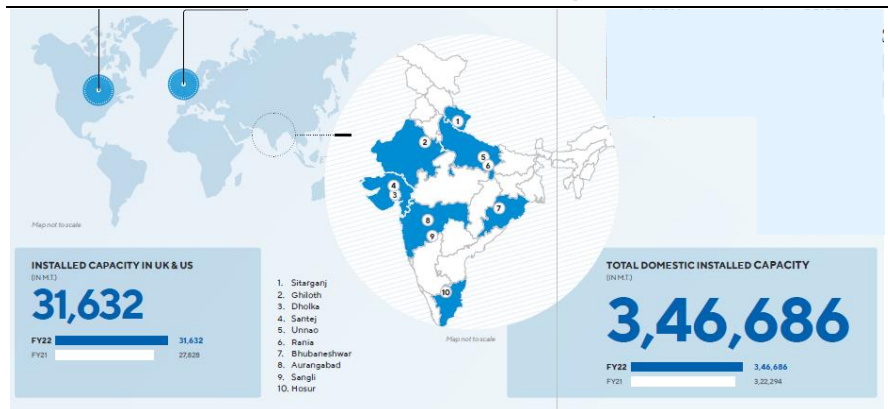
Source: Company, PL

Exhibit 32: Revenue per distributors (Astral)



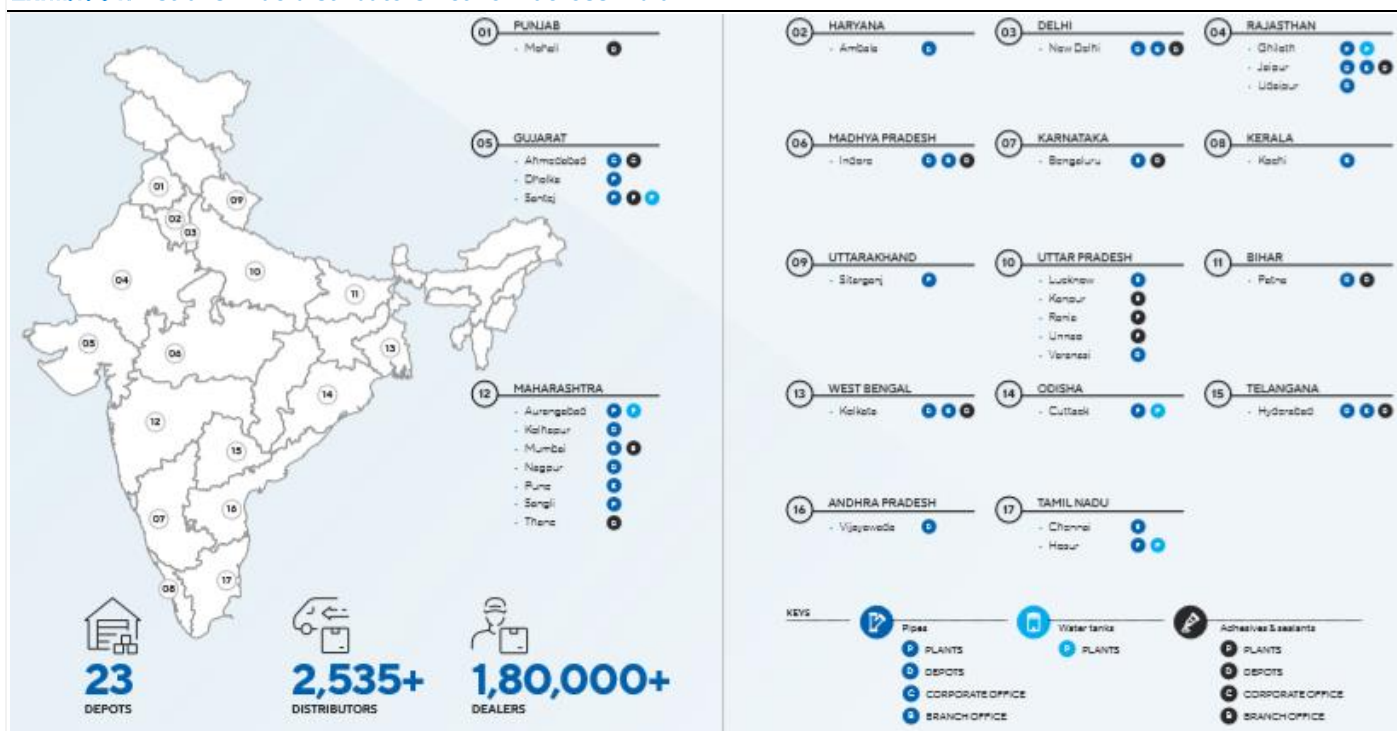
Source: Company, PL

Exhibit 33: Astral's comprehensive manufacturing facilities



Source: Company, PL

Exhibit 34: Astral's wide distributors network across India

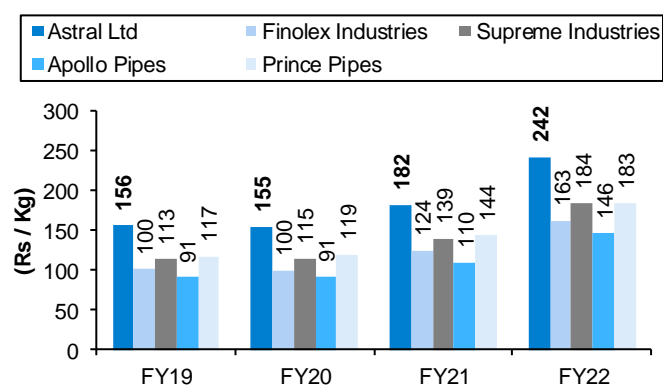


Source: Company, PL

Relatively higher realization being CPVC focused

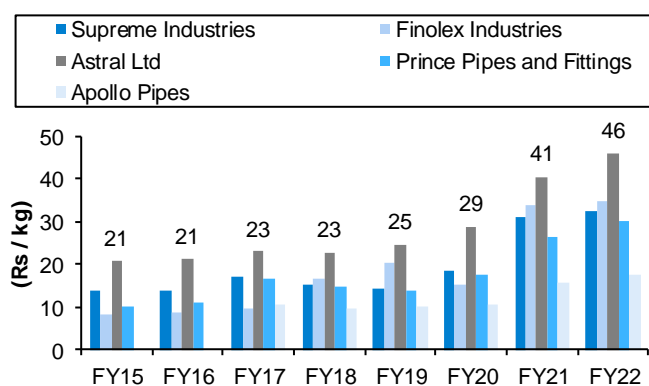
Being one of the largest CPVC pipe manufacturers and an early-mover in the space, gives competitive edge to Astral. This leads to maintenance of higher contribution of CPVC pipe & fittings in piping segment along with backward integration into CPVC compounding, resulting in higher operating margins compared to the sector. The company has an established brand and deep-rooted market presence reflected in its pipe segment with volume and revenue CAGR of 10.8% and 18.5% over FY17-22.

Exhibit 35: Astral has better realization among listed peers

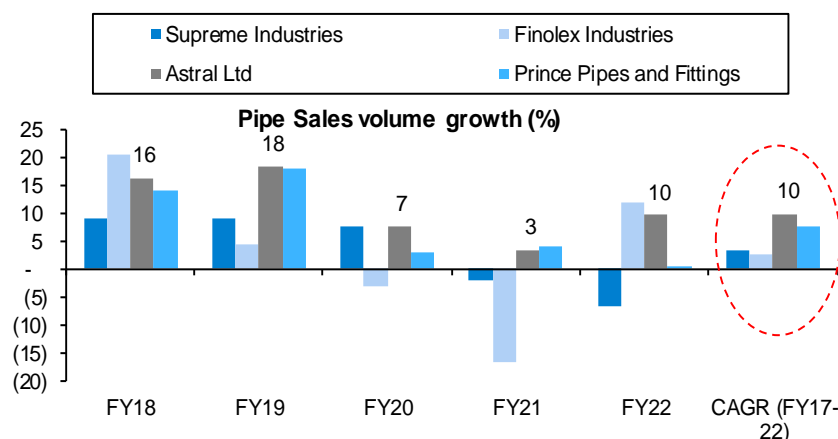


Source: Company, PL

Exhibit 36: Higher EBITDA per kg among pipe peers



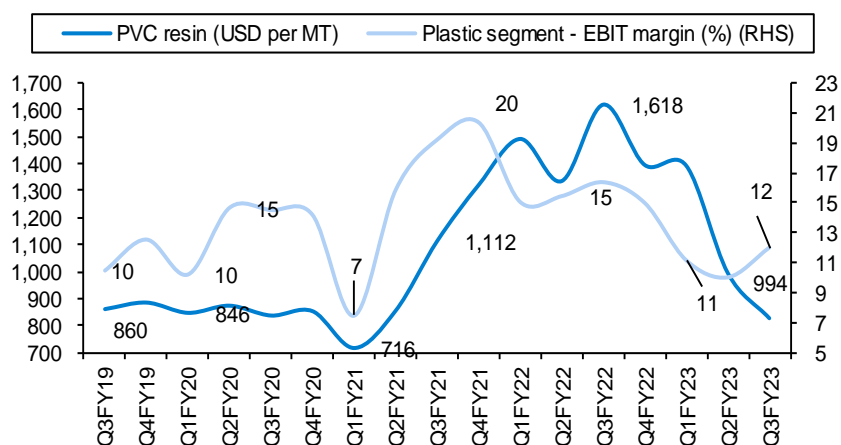
Source: Company, PL

Exhibit 37: Amongst plastic pipe volumes Astral outperform its peers


Source: Company, PL

Stabilization in raw materials prices led volume growth

With stabilization in raw material prices, the company is expected to see improvement in volumes and is confident of maintaining 15%+ operating margins in future. Astral has healthy mix of raw materials procurements in domestic vs export skewed towards domestic, which mitigates currency risk to some extent. Also, Astral procures each raw material largely from two to three suppliers and hence mitigates supplier concentration risk. Astral has also diversified its business (CPVC pipe, adhesive, paints etc), thus, impact of one raw material movement is comparatively lower than one RM based manufacturer.

Exhibit 38: PVC resin price movement vs Astral's EBITDA margin


Source: Company, PL

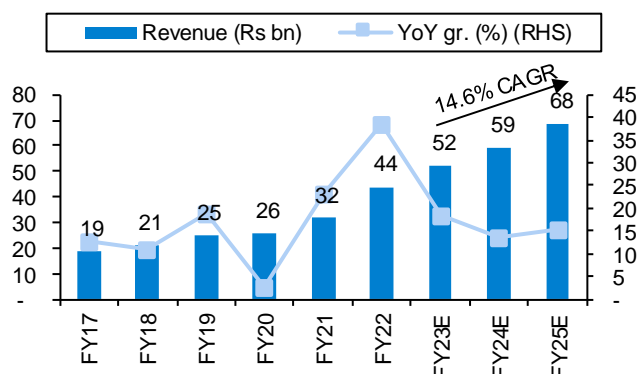
Financials and Valuations

Estimate CAGR of 14.6% in sales over FY23-25E

We expect revenue to grow at 14.6% CAGR over FY23-25 with Pipe & Fittings sales to grow at 12.5% CAGR, while adhesive business to grow at 14.4% CAGR.

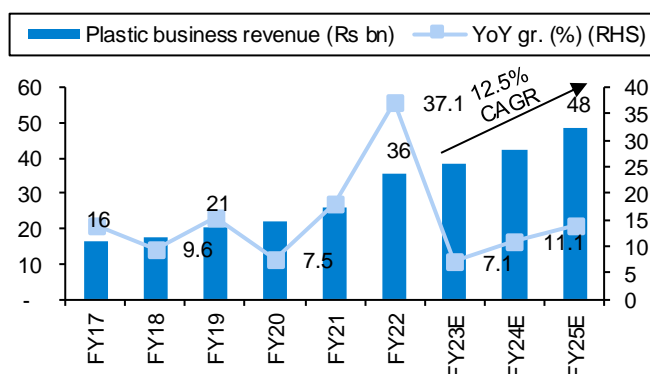
- We expect Pipe & Fittings to grow at 12.5% CAGR over FY23-25 led by 1) growing Infrastructure/Housing sector 2) new capacity in East India and 3) traction in corrugated pipe. The segment's revenue contribution is still at higher side of ~70%.
- Adhesive business: Astral continues to focus on increasing capacity utilization, distribution network and product additions in adhesive segment. We expect sales to grow at a 14.4% CAGR over FY23-25.
- Paints and Sanitaryware & faucets business is expected to grow at faster rate over FY23-25 on account of a) on small base, b) increase in products' SKUs and c) expansion in distribution network along with Astral brand.

Exhibit 39: Revenues CAGR of 14.6% over FY23-25



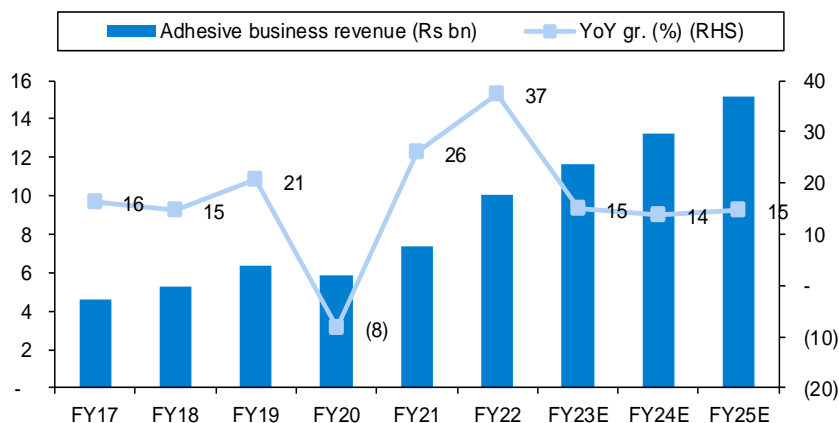
Source: Company, PL

Exhibit 40: Plastic pipe business 12.5% CAGR over FY23-25



Source: Company, PL

Exhibit 41: Healthy growth in adhesives business over FY23-25

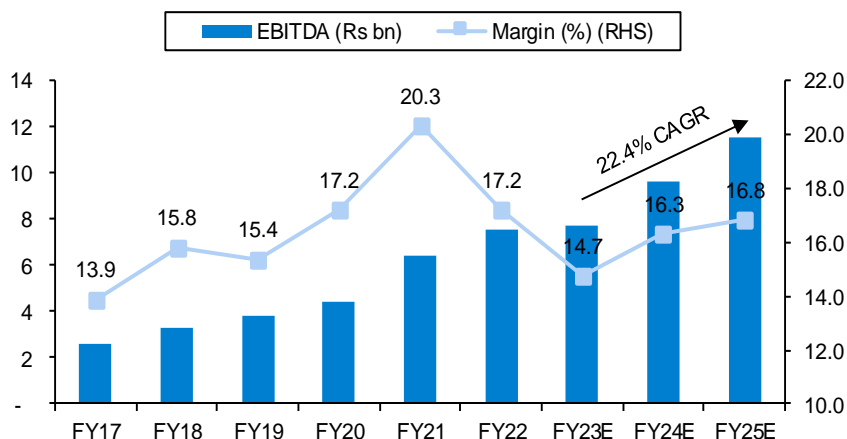


Source: Company, PL

EBITDA and PAT CAGR of 22.4% and 31.2% over FY23-25

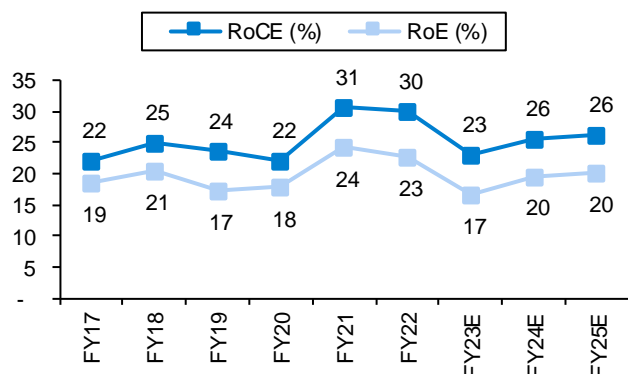
We estimate EBITDA CAGR of 22.4% over FY23-25, led by changing business mix given rising contribution of non-pipe business. We expect EBITDA margins to improve post correction in FY23, due to inventory losses with sudden fall in PVC resin prices. EBITDA margin is estimated at 16.8% in FY25. PAT is estimated to be at 31.2% CAGR (FY23-25) helped by better mix, low interest burden & rising other income.

Exhibit 42: EBITDA margin expected to improve with product mix



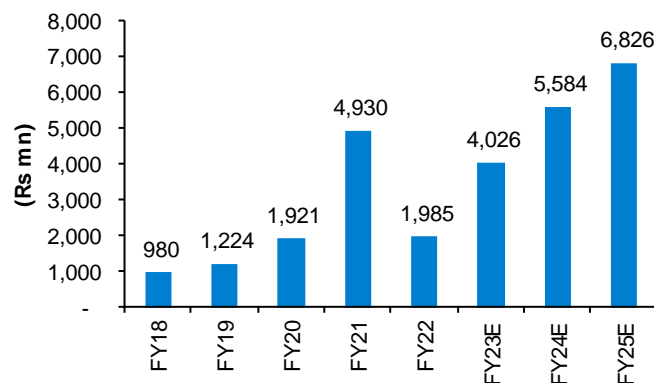
Source: Company, PL

Exhibit 43: Return profile to sustain



Source: Company, PL

Exhibit 44: Strong FCF despite addition of new segments



Source: Company, PL

Exhibit 45: Quarterly Snapshot: Consistent healthy performance, inventory loss hits margin in Q2/Q3FY23

Particulars (Rs mn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Revenue from Operations	6,641	6,289	4,039	7,471	8,975	11,278	7,001	11,541	11,027	13,906	12,129	11,716	12,678
YoY gr.	5.4%	-18.8%	-33.4%	10.1%	35.1%	79.3%	73.3%	54.5%	22.9%	23.3%	73.2%	1.5%	15.0%
Gross Profit	2,628	2,387	1,390	2,862	3,413	4,409	2,683	3,833	3,769	4,375	3,778	3,539	4,140
margin %	39.6%	38.0%	34.4%	38.3%	38.0%	39.1%	38.3%	33.2%	34.2%	31.5%	31.1%	30.2%	32.7%
Other Expenses	1,446	1,261	847	1,426	1,493	1,863	1,389	1,718	1,793	2,207	2,061	2,099	1,475
% of sales	21.8%	20.1%	21.0%	19.1%	16.6%	16.5%	19.8%	14.9%	16.3%	15.9%	17.0%	17.9%	11.6%
EBITDA	1,182	1,126	543	1,436	1,920	2,546	1,294	2,115	1,976	2,168	1,717	1,440	1,864
Margin	17.8%	17.9%	13.4%	19.2%	21.4%	22.6%	18.5%	18.3%	17.9%	15.6%	14.2%	12.3%	14.7%
YoY gr.	26.2%	-5.3%	-41.7%	20.7%	62.4%	126.1%	138.3%	47.3%	2.9%	-14.8%	32.7%	-31.9%	-5.7%
Other Income	22	1	39	49	61	50	43	80	62	164	114	135	-20
Depreciation	274	289	285	288	300	292	306	314	321	328	433	448	455
Interest	54	181	59	-9	17	12	46	11	20	52	144	140	94
PBT	876	657	238	1,206	1,664	2,288	985	1,870	1,697	1,933	1,254	987	1,295
Tax	194	135	25	283	413	527	234	437	418	492	316	241	346
ETR	22.1%	20.5%	10.5%	23.5%	24.8%	23.0%	23.8%	23.4%	24.6%	25.5%	25.2%	24.4%	26.7%
Profit before JV/Associates/Minority Interest	682	522	213	923	1,251	1,761	751	1,433	1,279	1,441	938	746	949
Share of JV/Associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Adj PAT	682	522	213	923	1,251	1,761	751	1,433	1,279	1,441	938	746	949
Adj. PAT margin %	10.3%	8.3%	5.3%	12.4%	13.9%	15.6%	10.7%	12.4%	11.6%	10.4%	7.7%	6.4%	7.5%
YoY gr.	32.8%	-20.1%	-55.6%	11.9%	83.4%	237.4%	252.6%	55.3%	2.2%	-18.2%	24.9%	-47.9%	-25.8%
Exceptional item	1	6	10	44	12	-	-	-	-	-	-	-40	-
Reported PAT	682	516	203	879	1,239	1,761	751	1,433	1,273	1,414	890	757	930

Source: Company, PL

Valuations

We expect Astral to deliver consistent performance over next few years driven by a) diversification in business mix and b) improvement in macroeconomic environment (as piping market grows 1.5x GDP). Further, we expect improvement in the company's gross margin as price of its raw material stabilized and ventured in higher margin products.

Astral has also entered into adhesive business, double wall corrugated (DWC) pipes, sanitaryware, paints and water tank business which will aid the company's growth trajectory. We expect an uptick in exiting business with improvement in capacity utilisation and distribution reach.

Astral is a consistent quality performer and we believe that it is a compounding story. We initiate with '**BUY**' rating on DCF based TP of Rs2,160 which implies 59x FY25E EPS.

Exhibit 46: DCF assumption and calculation

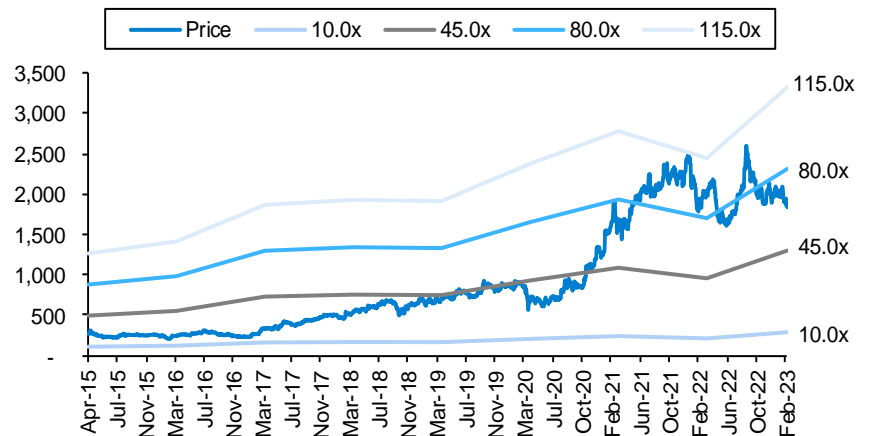
DCF assumptions

Beta (x)	0.7
Risk free rate (%)	7.5
Risk Premium (%)	4.0
Cost of equity (%)	10.1
Cost of debt (%)	8.0
WACC (%)	10.0
Terminal growth rate (%)	6.0

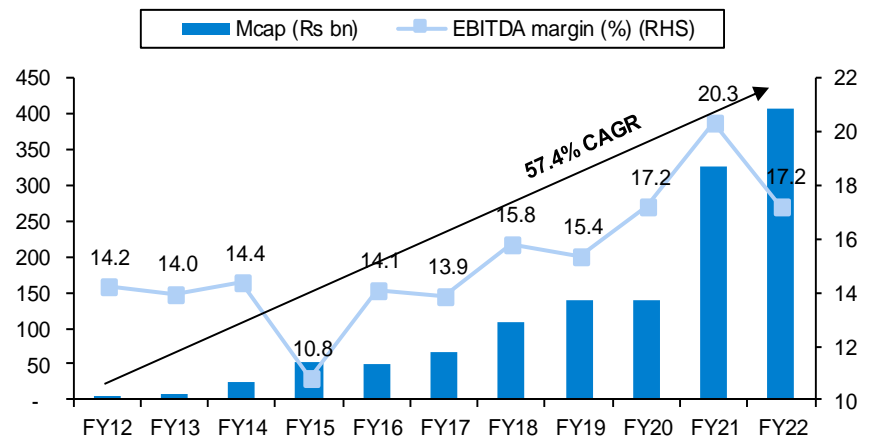
DCF calculation

(Rs mn)	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
NOPAT	4,752	4,143	5,927	7,274	8,927	10,957	13,148	15,777	18,933	22,720	27,263
Dep/amort.	1,269	2,072	2,016	2,222	2,727	3,346	4,016	4,819	5,783	6,939	8,327
NWC	858	170	33	376	414	455	501	551	606	666	733
Capex	3,750	2,580	2,580	2,580	2,580	1,500	1,500	1,500	1,500	1,500	1,500
FCF	1,413	3,464	5,331	6,540	8,660	12,348	15,163	18,545	22,610	27,492	33,357
PV		3,148	4,401	4,907	5,904	7,650	8,536	9,487	10,510	11,612	12,803
Total PV	4,14,108										
Net Debt	-19,980										
Equity Value	4,34,088										
Fully diluted no. of shares (mn)	201										
Fair Value (Rs/share)	2,160										

Source: Company, PL

Exhibit 47: Astral 1 Yr Fwd PE (x) chart


Source: Company, PL

Exhibit 48: Market cap up 93x in 10yrs, with consistent margin improvement


Source: Company, PL

Key Risks

- **High competition:** Intense competition in pipes and fittings industry primarily in the commoditized products segment is characterized by low product differentiation.
- **Supplier concentration:** CPVC is a niche product with limited number of suppliers in the world.
- **Fluctuations in raw material prices:** Astral's margin is exposed to fluctuations in raw material prices (PVC resin, CPVC resin, VAM), which moves in tandem with crude oil prices.
- **Forex movement:** There are risks related to fluctuations in forex rates, as Astral imports around one third of its raw material requirement.

Board of Directors and KMP

Exhibit 49: Board of Directors and KMP

Name	Designation
Mr. Sandeep P Engineer	Chairman and Managing Director
Mr. C K Gopal	Independent Director
Mr. Viral M Jhaveri	Independent Director
Mrs. Kaushal D Nakrani	Independent Director
Mr. Girish B Joshi	Whole time director
Mrs. Jagruti Engineer	Whole time director
Mr. Hiranand A Savlani	CFO
Mr. Manan Chandraprakash Bhavsar	CS and Compliance Officer

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	43,940	52,097	59,252	68,433
YoY gr. (%)	38.3	18.6	13.7	15.5
Cost of Goods Sold	29,280	35,530	39,403	45,166
Gross Profit	14,660	16,567	19,850	23,267
Margin (%)	33.4	31.8	33.5	34.0
Employee Cost	2,453	3,157	3,555	4,106
Other Expenses	-	-	-	-
EBITDA	7,553	7,679	9,658	11,497
YoY gr. (%)	17.2	1.7	25.8	19.0
Margin (%)	17.2	14.7	16.3	16.8
Depreciation and Amortization	1,269	1,792	2,016	2,222
EBIT	6,284	5,887	7,642	9,275
Margin (%)	14.3	11.3	12.9	13.6
Net Interest	129	400	118	118
Other Income	349	253	380	570
Profit Before Tax	6,504	5,740	7,904	9,727
Margin (%)	14.8	11.0	13.3	14.2
Total Tax	1,581	1,395	1,921	2,364
Effective tax rate (%)	24.3	24.3	24.3	24.3
Profit after tax	4,923	4,345	5,983	7,363
Minority interest	66	70	26	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,857	4,275	5,957	7,363
YoY gr. (%)	17.0	(12.0)	39.4	23.6
Margin (%)	11.1	8.2	10.1	10.8
Extra Ord. Income / (Exp)	-	(40)	-	-
Reported PAT	4,857	4,235	5,957	7,363
YoY gr. (%)	17.0	(12.8)	40.7	23.6
Margin (%)	11.1	8.1	10.1	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,857	4,235	5,957	7,363
Equity Shares O/s (m)	201	201	201	201
EPS (Rs)	24.2	21.3	29.6	36.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	20,766	23,748	26,348	28,848
Tangibles	20,766	23,748	26,348	28,848
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,806	7,598	9,615	11,836
Tangibles	5,806	7,598	9,615	11,836
Intangibles	-	-	-	-
Net fixed assets	14,960	16,150	16,734	17,012
Tangibles	14,960	16,150	16,734	17,012
Intangibles	-	-	-	-
Capital Work In Progress	1,232	550	450	450
Goodwill	-	-	-	-
Non-Current Investments	-	-	-	-
Net Deferred tax assets	(398)	(398)	(398)	(398)
Other Non-Current Assets	225	225	225	225
Current Assets				
Investments	-	-	-	-
Inventories	7,334	7,850	8,928	10,312
Trade receivables	2,691	4,282	4,870	5,625
Cash & Bank Balance	6,418	9,614	14,655	20,963
Other Current Assets	816	967	1,100	1,271
Total Assets	33,872	39,871	47,226	56,161
Equity				
Equity Share Capital	201	201	201	201
Other Equity	23,443	27,318	32,875	39,837
Total Networkth	23,644	27,519	33,076	40,038
Non-Current Liabilities				
Long Term borrowings	698	698	698	698
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	285	285	285	285
Trade payables	7,484	8,849	10,065	11,624
Other current liabilities	1,360	2,119	2,701	3,114
Total Equity & Liabilities	33,872	39,871	47,226	56,161

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	6,504	5,740	7,904	9,727
Add. Depreciation	1,269	1,792	2,016	2,222
Add. Interest	129	400	118	118
Less Financial Other Income	349	253	380	570
Add. Other	(88)	(40)	-	-
Op. profit before WC changes	7,814	7,892	10,038	12,067
Net Changes-WC	(705)	(170)	(33)	(376)
Direct tax	(1,678)	(1,395)	(1,921)	(2,364)
Net cash from Op. activities	5,431	6,326	8,084	9,326
Capital expenditures	(3,446)	(2,300)	(2,500)	(2,500)
Interest / Dividend Income	118	-	-	-
Others	4,043	-	-	-
Net Cash from Invt. activities	715	(2,300)	(2,500)	(2,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	134	-	-	-
Dividend paid	(451)	(350)	(400)	(400)
Interest paid	(123)	(400)	(118)	(118)
Others	-	-	-	-
Net cash from Fin. activities	(440)	(750)	(518)	(518)
Net change in cash	5,706	3,276	5,066	6,308
Free Cash Flow	1,985	4,026	5,584	6,826

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	24.2	21.3	29.6	36.6
CEPS	30.5	30.2	39.7	47.7
BVPS	117.6	136.9	164.6	199.2
FCF	9.9	20.0	27.8	34.0
DPS	1.7	2.0	2.0	2.0
Return Ratio(%)				
RoCE	29.9	23.1	25.6	26.2
ROIC	30.2	26.3	34.8	42.4
RoE	22.7	16.7	19.7	20.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	21	23	23	23
Valuation(x)				
PER	78.2	88.8	63.7	51.6
P/B	16.1	13.8	11.5	9.5
P/CEPS	62.0	62.6	47.6	39.6
EV/EBITDA	49.5	48.3	37.9	31.3
EV/Sales	8.5	7.1	6.2	5.3
Dividend Yield (%)	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	13,906	12,129	11,716	12,678
YoY gr. (%)	23.3	73.2	1.5	15.0
Raw Material Expenses	9,531	8,351	8,177	8,538
Gross Profit	4,375	3,778	3,539	4,140
Margin (%)	31.5	31.1	30.2	32.7
EBITDA	2,168	1,717	1,440	1,864
YoY gr. (%)	(14.8)	32.7	(31.9)	(5.7)
Margin (%)	15.6	14.2	12.3	14.7
Depreciation / Depletion	328	433	448	455
EBIT	1,840	1,284	992	1,409
Margin (%)	13.2	10.6	8.5	11.1
Net Interest	52	144	140	94
Other Income	164	114	135	(20)
Profit before Tax	1,952	1,254	987	1,295
Margin (%)	14.0	10.3	8.4	10.2
Total Tax	492	316	241	346
Effective tax rate (%)	25.2	25.2	24.4	26.7
Profit after Tax	1,460	938	746	949
Minority interest	-	-	-	-
Share Profit from Associates	(19)	-	-	-
Adjusted PAT	1,441	938	706	949
YoY gr. (%)	(18.2)	24.9	(50.7)	(25.8)
Margin (%)	10.4	7.7	6.0	7.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,441	938	706	949
YoY gr. (%)	(18.2)	24.9	(50.7)	(25.8)
Margin (%)	10.4	7.7	6.0	7.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,441	938	706	949
Avg. Shares O/s (m)	201	201	201	201
EPS (Rs)	7.2	4.7	3.5	4.7

Source: Company Data, PL Research

March 1, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	46,473	45,384	47,503	52,691
EBITDA (Rs. m)	10,237	4,867	7,648	8,462
Margin (%)	22.0	10.7	16.1	16.1
PAT (Rs. m)	10,664	4,020	5,687	6,337
EPS (Rs.)	17.2	6.5	9.2	10.2
Gr. (%)	47.8	(62.3)	41.5	11.4
DPS (Rs.)	4.0	3.9	2.2	2.6
Yield (%)	2.4	2.3	1.3	1.5
RoE (%)	30.2	10.0	13.3	13.8
RoCE (%)	24.9	9.3	14.8	15.6
EV/Sales (x)	1.9	2.0	1.8	1.6
EV/EBITDA (x)	8.8	18.5	11.4	10.1
PE (x)	9.8	26.1	18.4	16.6
P/BV (x)	2.7	2.5	2.4	2.2

Key Data

FINX.BO | FNXP IN

52-W High / Low	Rs.195 / Rs.122
Sensex / Nifty	58,962 / 17,304
Market Cap	Rs.105bn/ \$ 1,269m
Shares Outstanding	620m
3M Avg. Daily Value	Rs.199.41m

Shareholding Pattern (%)

Promoter's	52.81
Foreign	5.40
Domestic Institution	11.62
Public & Others	30.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.0)	11.2	12.1
Relative	(1.0)	12.3	7.0

Praveen Sahay

praveensahay@plindia.com | 91-22-66322369

Finolex Industries

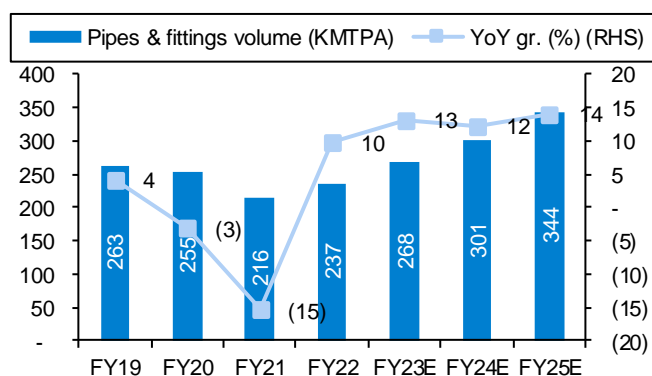
Rating: BUY | CMP: Rs169 | TP: Rs224

Leader in agri pipe, integrated manufacturing

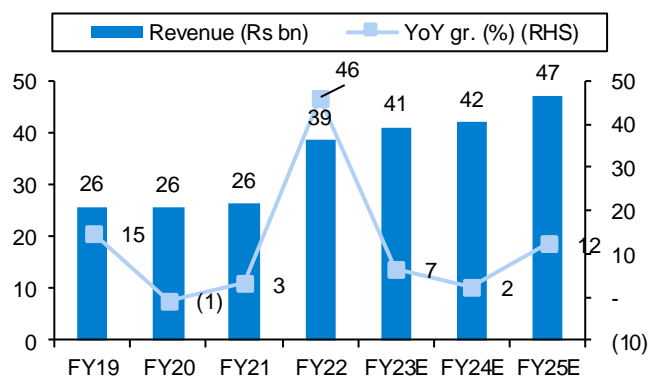
We initiate coverage on Finolex Industries Ltd (FNXP) with 'BUY' rating and target price of Rs224 given 1) leadership position in India's agriculture pipes segment (~65% of FNXP's PVC pipes volume) 2) well known for its strong brand, product quality and aggressive pricing compared to competitors and 3) the only backward integrated player in PVC piping business (manufactures resin for its PVC pipe production), and thus, is a major beneficiary of stabilisation in PVC resin prices. Over FY22-25E, we expect FNXP's RoCE (excluding cash and investment) and earnings to improve with stabilisation in margins and improvement in volume growth. The company also has a healthy dividend pay-out ratio, which should improve further owing to expected special dividend on account of second tranche of Pune land deal. Over FY17-22, FNXP delivered healthy financials with sales/EBITDA/PAT CAGR of 12.3%/12.7%/23.7% and average EBITDA margin of 20.7%. We expect sales/EBITDA/PAT CAGR of 7.7%/31.9%/25.6% over FY23-25E and arrive at TP of Rs224 on SOTP (valuing business at 21x FY25 EPS). Initiate 'BUY'.

- **Leadership position in agri pipe and strong presence in rural India:** Given recovering demand in rural areas, FNXP is expected to see better pick-up in pipe demand due to leadership position in agri pipe segment (around 25% market share in agri plastic pipe) and strong presence in rural areas. Also, softening of PVC resin prices are expected to boost agri pipe demand sentiments. Decline in FNXP's sales volume in FY21/22 (81%/93% of FY19 sales volume) clearly indicate deferment of agricultural pipe purchases by farmers in anticipation of a price correction. However, we have seen some demand recovery from farmers in 9MFY23 (122% of 9MFY19 sales volume & up 40% YoY) and we believe that the momentum will continue in agri pipe demand with significant correction in PVC resin price.
- **Diversifying from agri to plumbing pipe & fittings:** FNXP is focusing on increasing contribution from plumbing segment to diversify its revenue mix by increasing product basket, distributors and partnering with plumbers, contractors, MEP consultants & builders. Currently, 35-37% of Pipes segment sales volumes and ~40% of pipe segment revenues are generated from plumbing segment, which is expected to increase to 45% in terms of volume.
- **FNXP is the only integrated player in PVC piping business:** The company has continuously reduced external sales of PVC resin and increased captive consumption. This benefited in terms of 1) cost advantage, 2) better quality and 3) reduced logistics cost.
- **Valuation & Outlook:** We are long term positive on FNXP due to (a) its high exposure to rural markets, (b) expected market share gains in pipes and fittings segment, (c) anticipated special dividend payment, and (d) increase in plumbing pipe contribution. We initiate coverage with 'BUY' rating and target price of Rs224 based on SOTP, (valuing business at 21x FY25E EPS), a 32% upside.

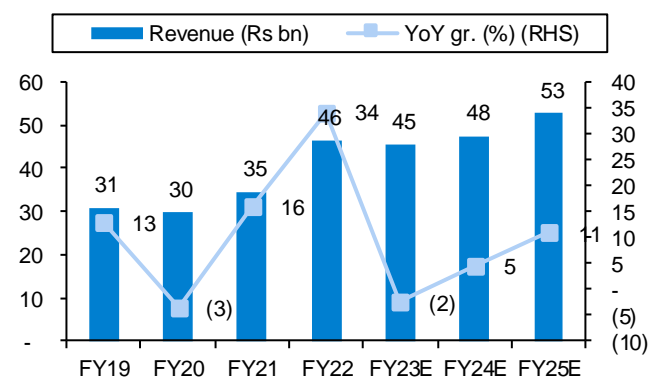
Story in Charts

Exhibit 50: Healthy growth in piping volume over FY22–25


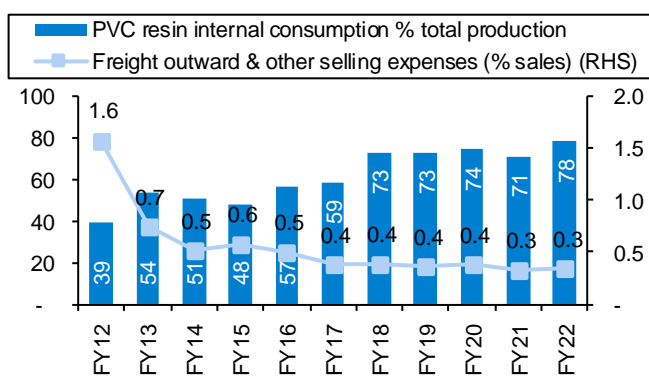
Source: Company, PL

Exhibit 51: Pipe business expected 7.2% CAGR over FY23–25


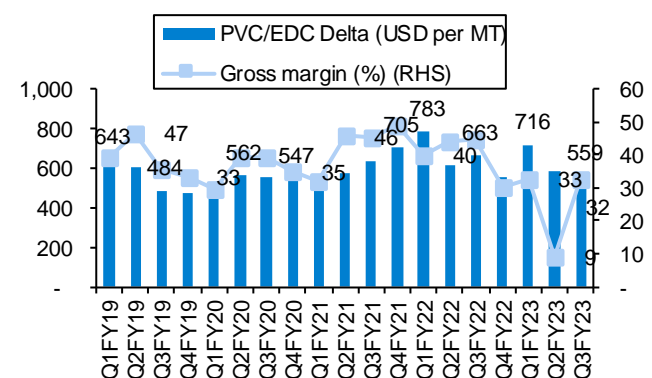
Source: Company, PL

Exhibit 52: Revenues to grow at a CAGR of 7.7% over FY23–25


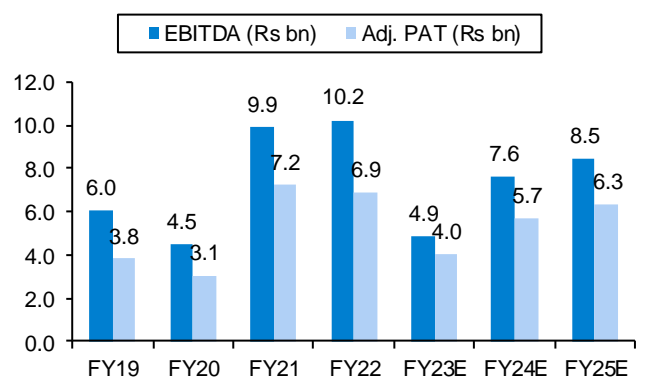
Source: Company, PL

Exhibit 53: PVC resin internal uses increased


Source: Company, PL

Exhibit 54: EBITDA margin move in line with PVC-EDC spread


Source: Company, PL

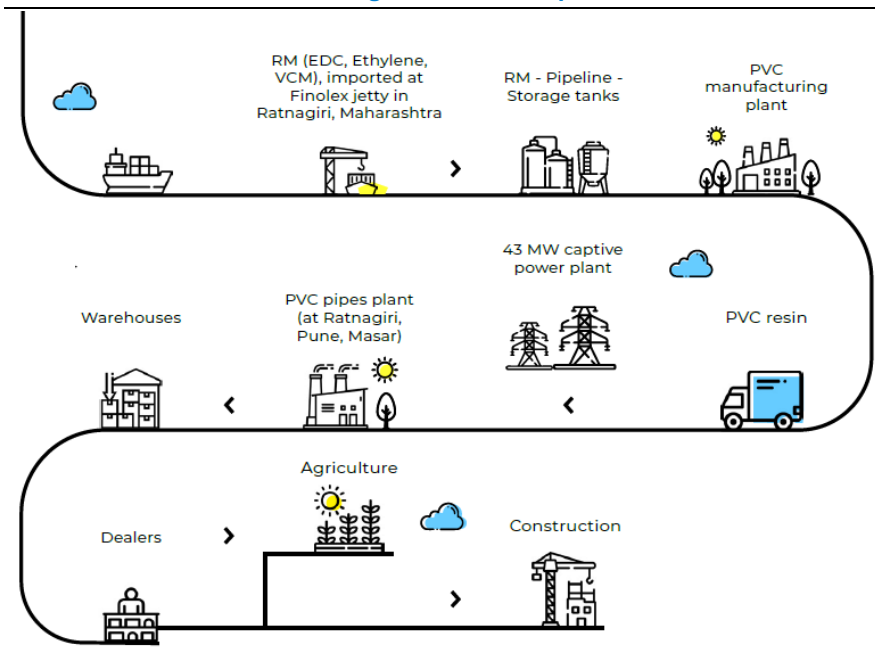
Exhibit 55: EBITDA and PAT expected strong recovery


Source: Company, PL

Finolex Industries – Backward integrated player

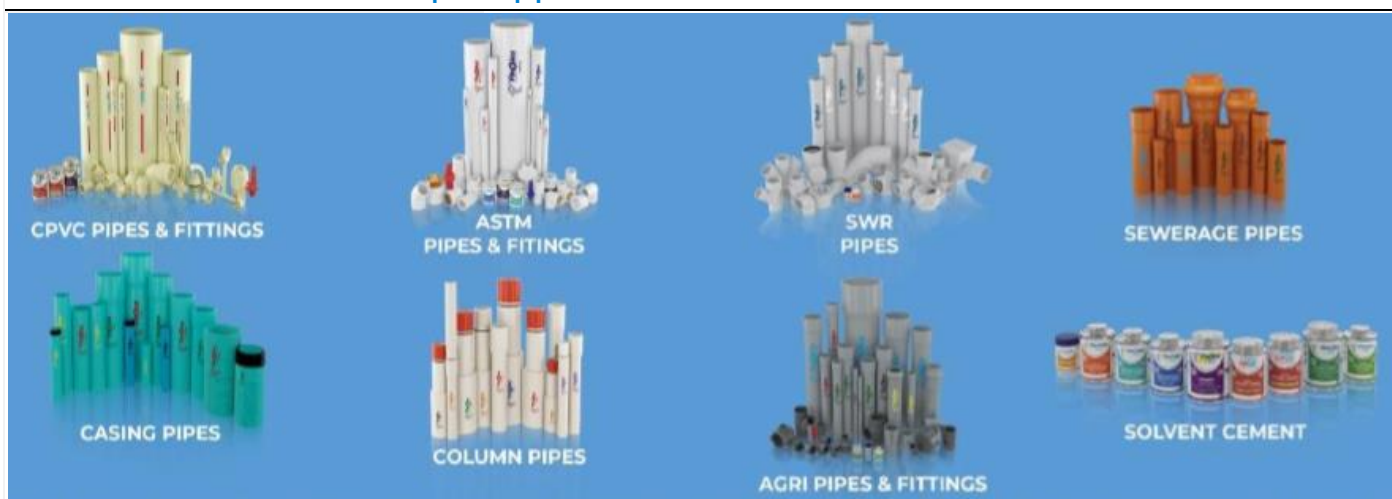
Incorporated in 1981, FNXP is one of India's largest and only backward integrated PVC Pipes and Fittings manufacturer. FNXP has annual production capacity of 370K TPA for pipes and fittings and 272K TPA of PVC resin, largely in agriculture sectors. FNXP has three manufacturing facilities in Maharashtra (Urse-Pune and Ratnagiri) and Gujarat (Masar), combined with its vast distribution network of 900+ dealers and 21,000+ retailers.

Exhibit 56: FNXP backward integrated business process



Source: Company, PL

Exhibit 57: Wide Product Portfolio in plastic pipes



Source: Company, PL

Investment Arguments

Leadership position in agri pipe and strong rural presence

Softening of PVC resin prices is expected to boost agri pipe demand sentiments.

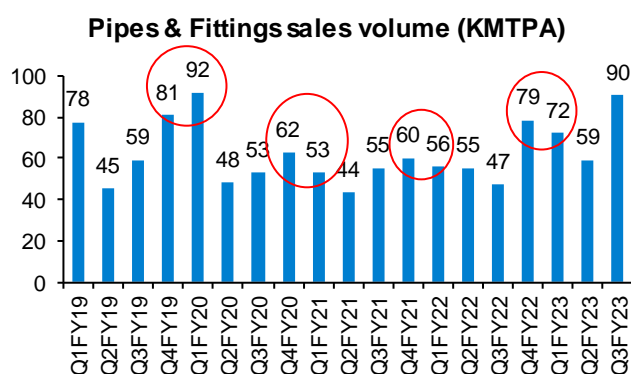
Given recovering demand in rural areas, FNXP is expected to see better pick-up in pipe demand due to its leadership position in agri pipe segment and strong presence in rural areas. Also, softening of PVC resin prices are expected to boost agri pipe demand sentiments.

FNXP witnessed sharp dip in pipe volumes in Q4FY20 and Q1FY21 due to Covid demand disruption, non-availability of logistics support and production constraints owing to lockdowns. Further, the unprecedented price increase in PVC resin from Q2FY21 along with second wave of Covid in Q1FY22 impacted FNXP's business, resulting in muted pipe and fittings volumes (demand for agricultural pipes and fittings usually peaks in Q1 and Q4). Moreover, Q1 of FY21 and FY22 were severely affected, while Q4 of FY21 and FY22 were partially impacted due to lockdowns and higher PVC resin prices.

Sales volume improved to 7% in 1HFY23 vs 1HFY19, momentum expected to continue

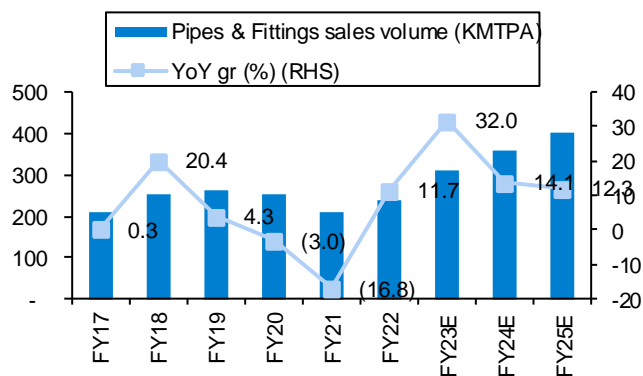
FNXP reported sales volume of 0.21mn MT in FY21 (81% of FY19 sales volume) and 0.24mn MT in FY22 (93% of FY19 sales volume). Decline in sales volume clearly indicates deferment of agricultural pipe purchases by farmers in anticipation of a price correction. However, we have seen some demand recovery from farmers in 9MFY23 (122% of 9MFY19 sales volume & up 40% YoY) and we believe this momentum will continue in agri pipe demand with significant correction in PVC resin price, which is almost back to pre-COVID level. Further, FNXP should gain market share in pipes and fittings segment as smaller players are still facing issues of inventory losses and weak balance sheet.

Exhibit 58: Seasonal pipes and fittings volumes

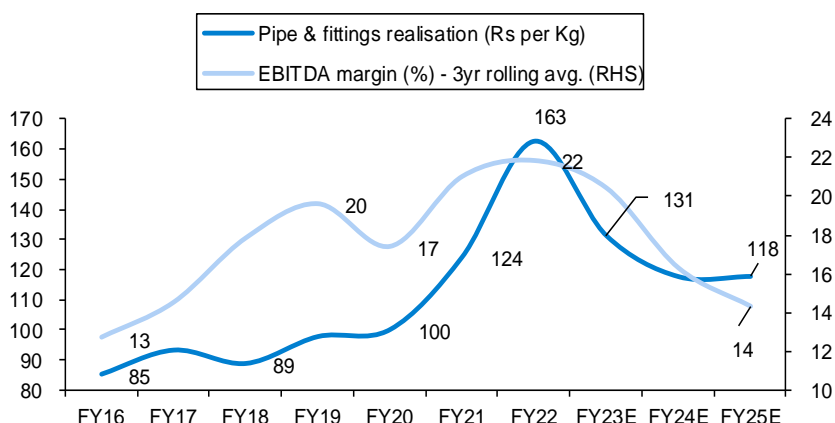


Source: Company, PL

Exhibit 59: Pipes and fittings volume to improve



Source: Company, PL

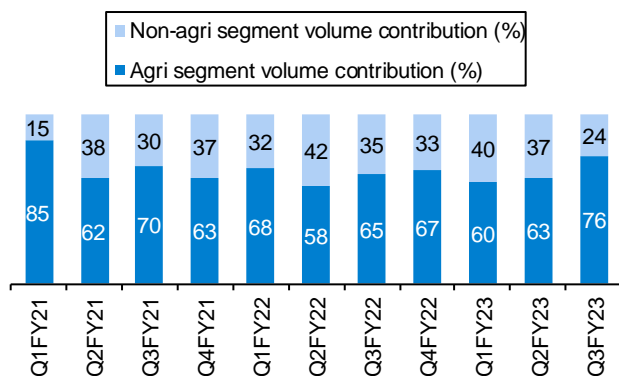
Exhibit 60: EBITDA margin – A function of pipes and fittings realisations


Source: Company, PL

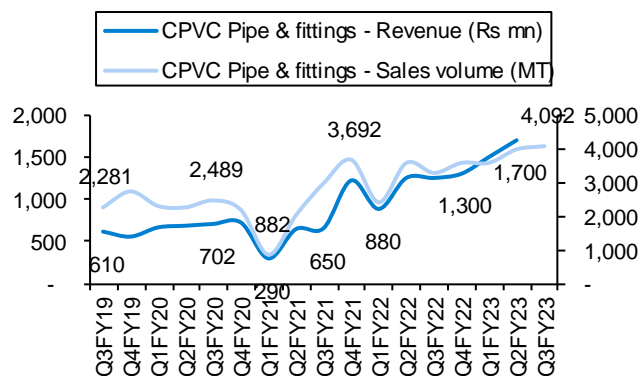
Diversify from Agri to plumbing pipe & fittings

Plumbing segment contributes ~40% of pipe revenues

FNXP has put efforts to increase its footprints in housing/plumbing segment. Currently, 35-37% of pipes segment sales volumes and ~40% of pipe segment revenues are generated from plumbing segment, which is expected to increase to 45% in terms of volume with focus on high margin plumbing products. Currently the CPVC piping system contributes ~12% of pipe revenue and 5.5-6% of pipe sales volume (increased from ~3.5% in FY19). FNXP's CPVC pipe volume grew at 13.7% CAGR over FY19-22.

Exhibit 61: Contribution of plumbing in Pipe sales volume


Source: Company, PL

Exhibit 62: CPVC volume & rev.contribution on upward trend


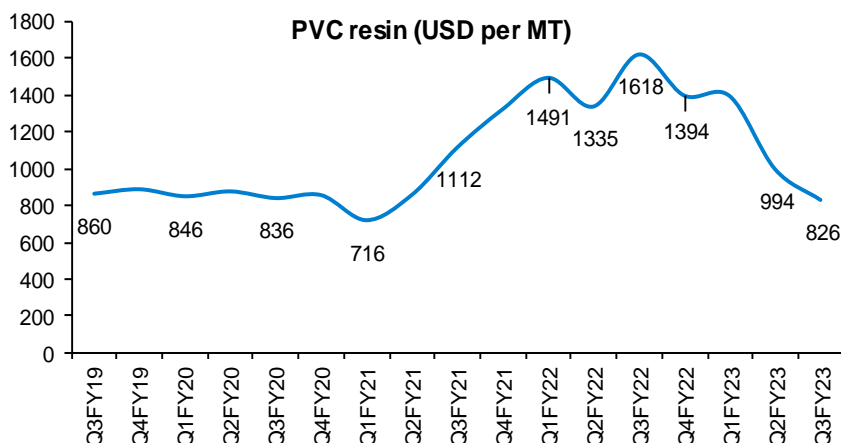
Source: Company, PL

Structural positive fundamental of PVC resin segment

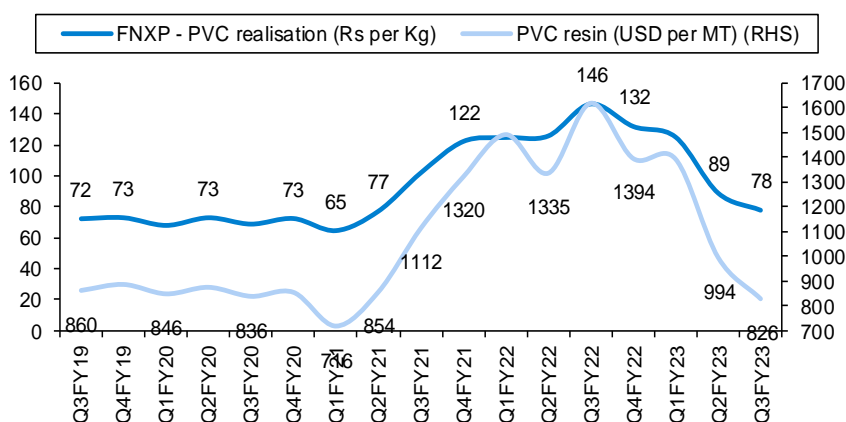
PVC realisation remained within a broad range of INR 55-80/kg for a substantial period (over Q1FY15 to Q1FY21). Pipes and fittings realisation also ranged between INR 82-110/kg over the same period, primarily due to range-bound PVC resin prices.

- Global PVC resin prices peaked to USD 1,850/MT in Oct'21 and corrected sharply to USD 780/MT in Nov'22. Thus, plastic pipe companies reported MTM inventory losses in Q2FY23 and Q3FY23.

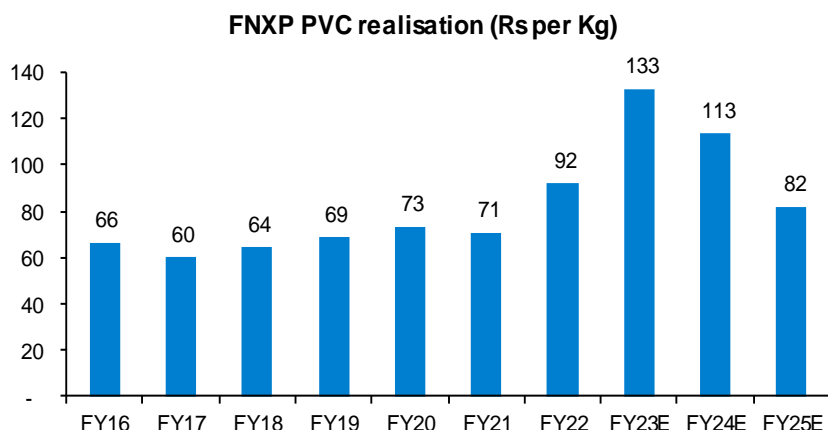
- Correction in PVC resin prices was largely because of demand-supply disruption. The average PVC resin prices were ~USD 875/mt over FY16-20 (average of pre-pandemic past five years). Current price of PVC resin (USD 900/MT) is almost at pre-pandemic average and expected to stabilize with normalization in supply-demand dynamic. With improvement in demand globally, we believe that it will remain at current level.
- The domestic PVC resin prices were at Rs 85-90/kg and as per the industry experts, it will stabilize at current level which will lead to improvement in pipe demand (particularly for agri pipe).
- Due to fluctuation in PVC resin prices, PVC realisation for FNXP peaked at 146.4/kg in Q3FY22, which corrected to Rs 78/kg in Q3FY23. Similarly, Pipes and fittings realisation also peaked at Rs 177/kg in Q3FY23 and corrected to Rs 119/kg in Q3FY23. Thus, with improvement in demand sentiments, we believe PVC realisation will stabilize for FNXP in coming years.

Exhibit 63: PVC prices return back to pre-pandemic at around USD 900/MT


Source: Company, PL

Exhibit 64: FNXP PVC Realisations corrected with PVC resin prices


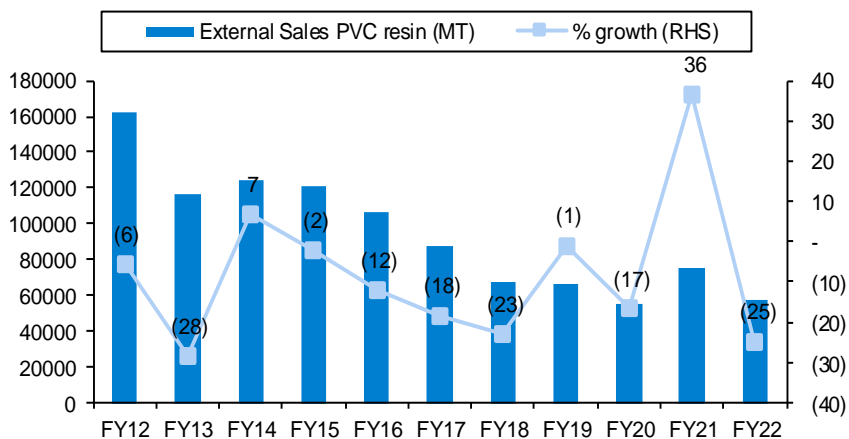
Source: Company, PL

Exhibit 65: FNXP PVC realisations expected to correct more than 40%


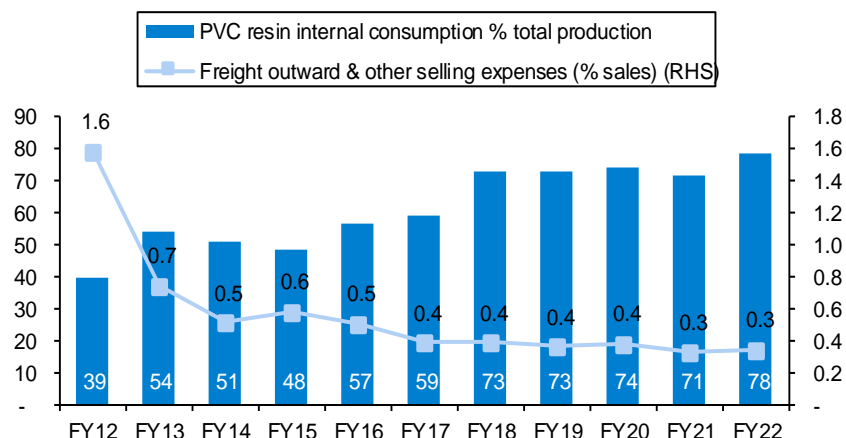
Source: Company, PL

Only backward integrated player in PVC piping business

FNXP is only backward integrated PVC Pipes and Fittings manufacturer with annual production capacity of 370K TPA for pipes and fittings and 272K TPA of PVC resin. The company has continuously reduced external sales of PVC resin and increased its captive consumption, which benefited in terms of 1) cost advantage, 2) assured better quality and 3) reduced logistics cost.

Exhibit 66: FNXP reduces external sales of PVC resin


Source: Company, PL

Exhibit 67: PVC resin internal uses increased, freight cost reduced


Source: Company, PL

Pune land deal to result in special dividend pay-out

On 15th Sep'21, FNXP's board approved proposal to transfer leasehold rights in the land measuring ~70 acres (1acre=43,560 sq ft) along with structures located at Pune for a total consideration not less than INR 7.25bn to be received in one or more tranches. The Company has already transferred leasehold rights of ~34.88 acres of land (out of ~70 acres) during Q4FY22 and recognized Rs3.76bn net gain. The company has also paid out special dividend out of the land deal (Rs2/share). We are expecting transfer of leasehold rights of remaining land in the near future (~35 acres of land, valued at Rs 3.8bn).

Exhibit 68: Details of Pune land deal

Land Sale	
Area (acres)	70
Total Consideration (Rs bn)	7.25
Land rate (Rs per sq ft)	2,378
Already done - 1st Tranche in Q4FY22	
Area (acres)	34.88
Amount Received (Rs bn)	376.06
Land rate (Rs per sq ft)	2,475
Remaining Land	
Area (acres)	35.12
Expected Amount (Rs bn)	379
Land rate (Rs per sq ft)	2,475

Source: Company, PL

Note- considered same land rate as of 1st tranche, to calculate amount for remaining land

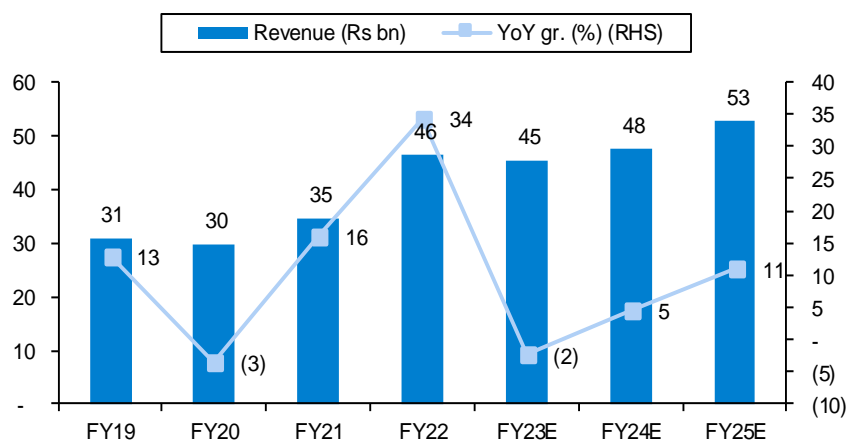
Financials

Piping sales volume of 13.2% CAGR over FY23-25E

We expect revenue CAGR of 7.7% over FY23-25 with Pipe & fittings sales growing at a CAGR of 7.2%, while PVC business expected 13.3% CAGR.

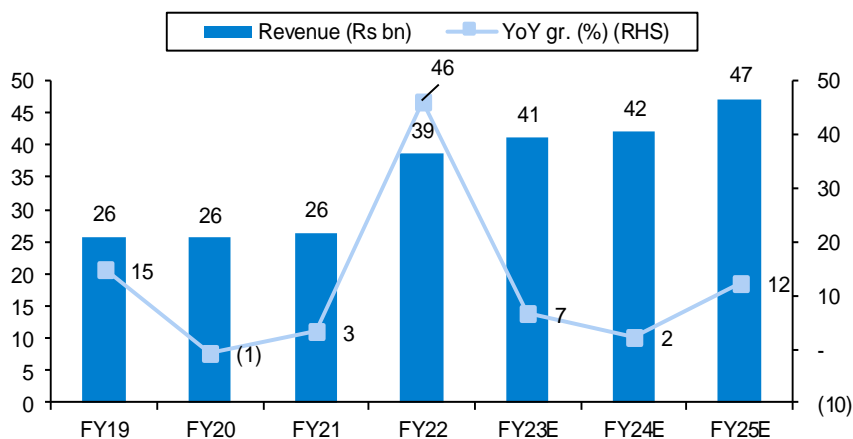
- We expect Pipe & fittings CAGR of 7.2% over FY23-25 led by 1) improvement in agri volume with significant correction in PVC resin prices and 2) improvement in plumbing volume mix. The segment's revenue contribution is still at higher side of ~83% (average of last 5 years).
- **PVC business:** FNXP continues to focus on internal consumption only, while due to seasonality in the business, external sales volume of PVC will be at ~28% of total production. Significant correction in PVC resin prices impacted realisation (down 26% YoY in 9MFY23). However, we believe that the realization of PVC resin segment to stabilize with PVC resin prices.

Exhibit 69: Revenues to grow at a CAGR of 7.7% over FY23-25E

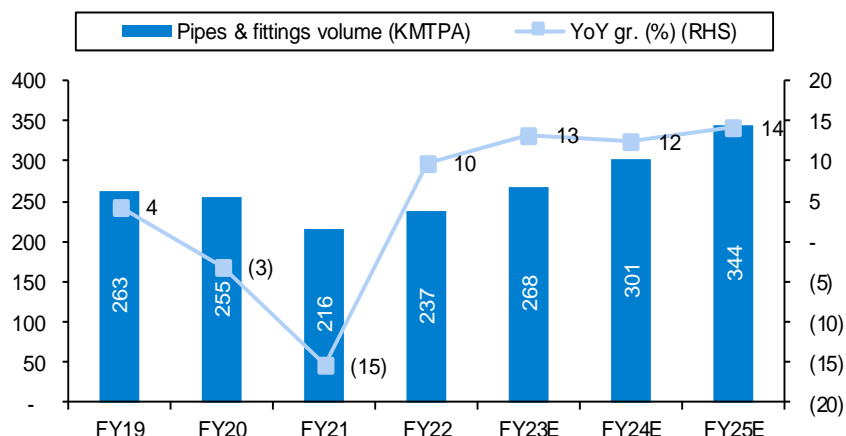


Source: Company, PL

Exhibit 70: Plastic pipe business expected 7.2% CAGR over FY23-25E



Source: Company, PL

Exhibit 71: Healthy growth in piping volume over FY22–25


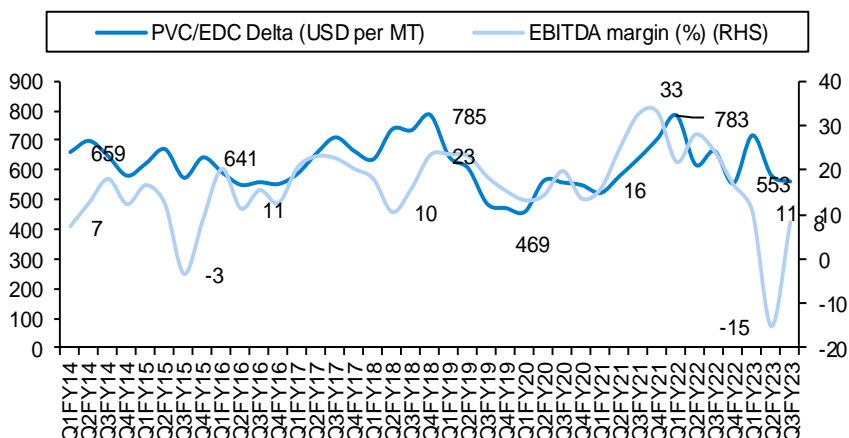
Source: Company, PL

EBITDA margin follow PVC-ECD spread

FNXP's margins are sensitive to PVC-ECD spreads. During FY21-22, PVC-ECD spreads were volatile due to supply-demand dynamics, leading to volatile margins for FNXP. However, increasing contribution from Pipe & Fittings reduces volatility.

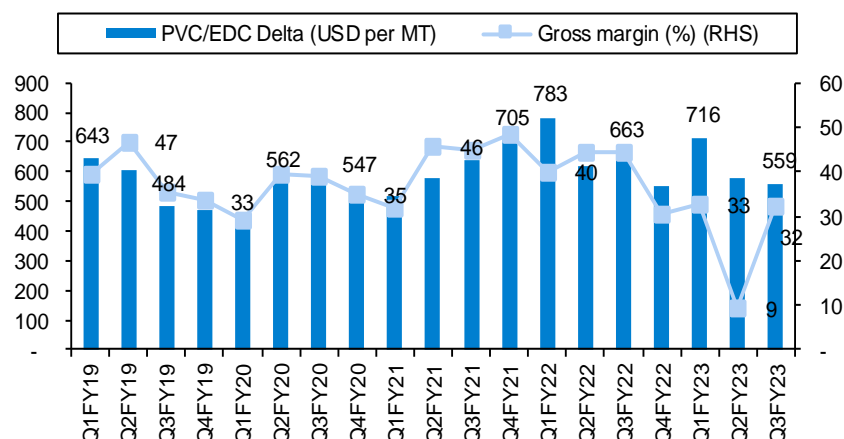
Post Q3FY20 spreads started to decline; in Q1FY21 they reached USD 521/MT due to Covid-19 led disruptions. However, from Q2FY21 spreads rose sharply due to market opening and disproportionate rise in PVC resin prices. This led to record spread level of USD 850/MT at the end of Q4FY21, which supported EBITDA margin (expanded from 15.7% in Q1FY21 to 32.8% in Q4FY21).

Further, after peaking at USD 880/MT at end of Apr'21, spreads corrected and plunged to USD 525/MT in Nov'22. Hence, FNXP reported contraction in EBITDA margins in Q2FY23 (reported loss of Rs 1.4bn) and Q3FY23 (down 1590bps YoY to 8.2%). However, PVC resin prices are not expected to go down further from here, as supply-demand started stabilizing. Thus, we also expect margin to improve in FY24 onwards on base of FY23.

Exhibit 72: EBITDA margin moving in line with PVC-EDC spreads


Source: Company, PL

Exhibit 73: Gross and EBITDA margins fluctuate with PVC-EDC spread

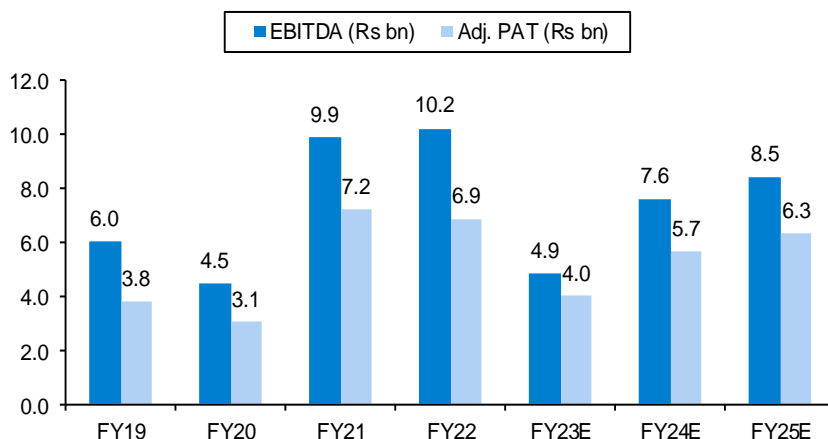


Source: Csompany, PL

EBITDA/PAT expected CAGR of 32%/25.6% over FY23-25

We estimate EBITDA CAGR of ~32% over FY23-25 led by stabilization in realization of both segments and volume growth in pipe & fittings (13.2% CAGR over FY23-25) mainly due to significant correction in PVC resin prices. We expect EBITDA margins to expand by 530bps over FY23-25, post correction in FY23 due to severe inventory losses with sudden fall in PVC resin prices. EBITDA margin is estimated to improve to 16.1% in FY25. PAT is estimated CAGR of 25.6% over FY23-25, which is lower than EBITDA due to normalization in tax rate.

Exhibit 74: EBITDA and PAT expected strong recovery over FY23-25

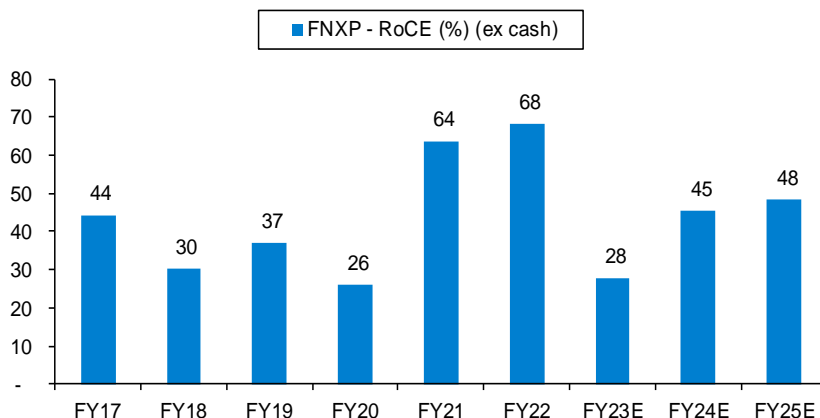


Source: Company, PL

Strong balance sheet and Healthy return ratio

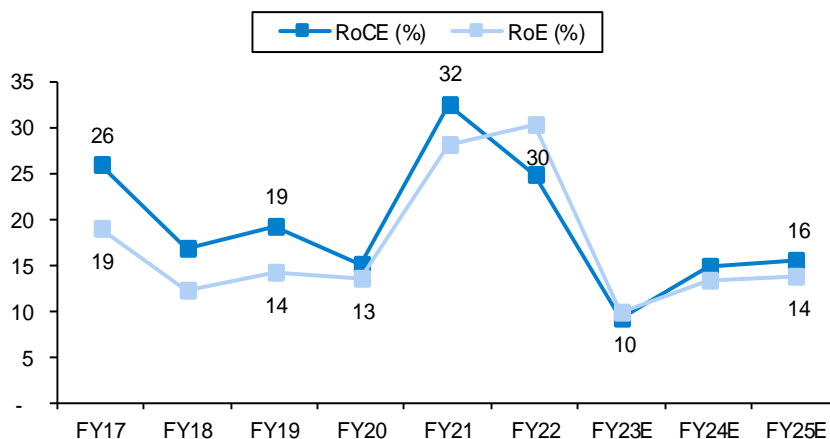
FNXP has a debt free balance sheet and almost NIL utilization of fund-based working capital limit. FNXP enjoys better return ratios than its major peers due to better sweating of PVC resin asset, high dividend pay-out (25-40%) and increased focus of management to operate in profitable segments.

Exhibit 75: Maintained higher returns (excluding cash & investment)



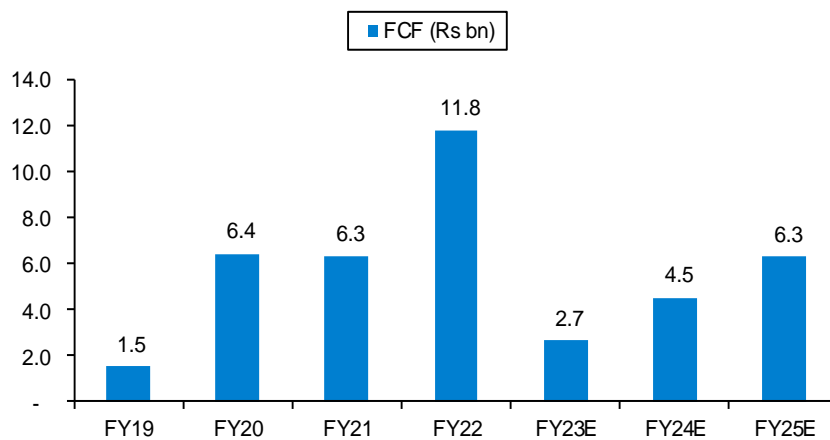
Source: Company, PL

Exhibit 76: Return profile sustain

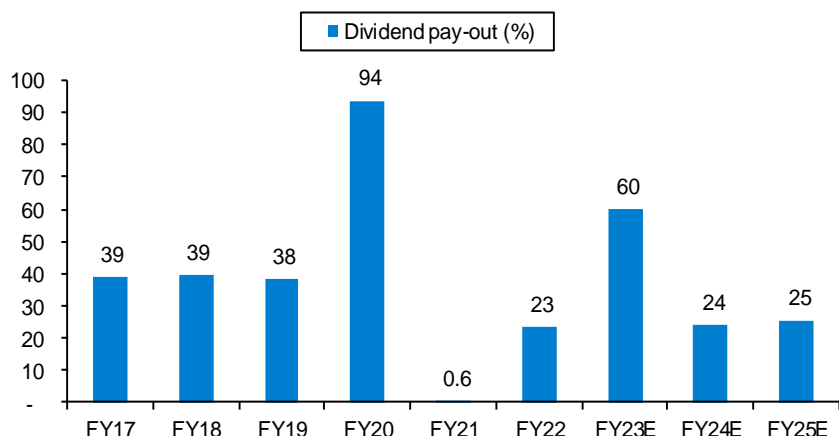


Source: Company, PL

Exhibit 77: Strong FCF generation despite addition of new segments



Source: Company, PL

Exhibit 78: Maintained higher dividend pay-out


Source: Company, PL

Exhibit 79: Quarterly Snapshot: Severe inventory losses impacted profitability in Q2FY23 and Q3FY23

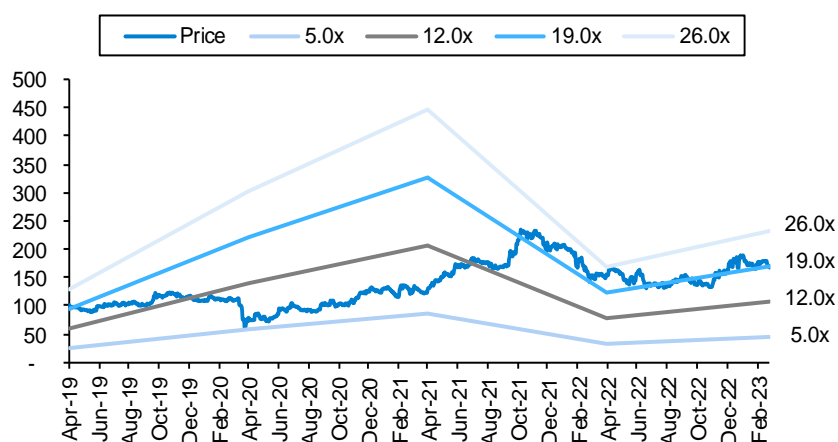
Particulars (Rs mn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Revenue from Operations	6,994	7,687	5,621	5,856	10,661	12,493	9,657	10,830	10,050	15,946	11,898	9,411	11,248
YoY gr.	-7.6%	-20.3%	-40.4%	1.5%	52.4%	62.5%	71.8%	84.9%	-5.7%	27.6%	23.2%	-13.1%	11.9%
Gross Profit	2,742	2,677	1,795	2,674	4,797	6,076	3,868	4,802	4,460	4,863	3,900	883	3,646
margin %	39.2%	34.8%	31.9%	45.7%	45.0%	48.6%	40.1%	44.3%	44.4%	30.5%	32.8%	9.4%	32.4%
Other Expenses	1,368	1,642	913	1,227	1,335	1,976	1,773	1,788	2,040	2,217	2,640	2,310	2,727
% of sales	19.6%	21.4%	16.2%	20.9%	12.5%	15.8%	18.4%	16.5%	20.3%	13.9%	22.2%	24.5%	24.2%
EBITDA	1,374	1,035	882	1,448	3,463	4,101	2,095	3,015	2,420	2,647	1,259	-1,427	919
Margin	19.6%	13.5%	15.7%	24.7%	32.5%	32.8%	21.7%	27.8%	24.1%	16.6%	10.6%	-15.2%	8.2%
YoY gr.	-1.1%	-29.3%	-28.6%	76.5%	152.0%	296.1%	137.4%	108.2%	-30.1%	-35.5%	-39.9%	-147.3%	-62.0%
Other Income	67	10	83	315	182	135	154	299	190	248	251	393	278
Depreciation	188	189	188	193	199	197	201	206	212	216	213	216	225
Interest	18	85	33	8	14	18	48	4	9	81	113	43	51
PBT	1,236	771	745	1,562	3,432	4,021	2,000	3,103	2,390	6,359	1,183	-1,293	921
Tax	341	301	206	379	873	1,047	529	752	611	1,421	182	-353	260
ETR	27.6%	39.0%	27.7%	24.2%	25.4%	26.0%	26.5%	24.2%	25.6%	22.3%	15.4%	27.3%	28.3%
Profit before JV/Associates/Minority Interest	895	471	538	1,183	2,559	2,973	1,471	2,351	1,779	4,938	1,001	-939	660
Share of JV/Associates	-	116	29	45	-	-	-	-	-	-	-	-	-
Non-controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Adj PAT	895	587	567	1,228	2,559	2,973	1,471	2,351	1,779	4,938	1,001	-939	660
Adj. PAT margin %	12.8%	7.6%	10.1%	21.0%	24.0%	23.8%	15.2%	21.7%	17.7%	31.0%	8.4%	-10.0%	5.9%
YoY gr.	15.3%	-35.8%	-21.6%	25.1%	185.9%	406.8%	159.4%	91.4%	-30.5%	66.1%	-32.0%	-140.0%	-62.9%
Exceptional item	-	-	-	-	-	-	-	-	-	3,761	-	-	-
Reported PAT	895	587	567	1,228	2,559	2,973	1,471	2,351	1,779	1,177	1,001	-939	660

Source: Company, PL

Valuations

We are long term positive on FNXP due to (a) its high exposure to rural markets, where demand recovery started, (b) expected market share gains in pipes and fittings segment, (c) anticipated special dividend payment, and (d) increase in plumbing pipe contribution. While margins in the previous few quarters were impacted by correction in PVC resin prices and lower PVC-EDC spreads, we expect it to improve in coming quarters as PVC prices and PVC-EDC spreads have back to pre-pandemic level, which is already reflected in Q2/Q3FY23 numbers. We initiate 'BUY' rating at TP of Rs224, based on 21x FY25E EPS and also valued stake in the group listed entity Finolex Cables at 50% discount to market value.

Exhibit 80: FNXP 1 Yr Fwd PE (x) chart



Source: Company, PL

Key Risks

- **Slowdown in rural or agricultural segment:** The demand for plastic pipe products is affected by the levels of the growth in the rural or agriculture segment in India.
- **Foreign exchange fluctuations:** FNXP import some of its raw material and with the depreciation in Indian Rupee, impact the cost for the company.
- **Volatility in PVC-EDC spreads:** FNXP's margin is dependent on PVC-EDC spread, healthy spread results improvement in profitability for the company.

Key Management Person

Exhibit 81: Key Management Person

Name	Designation
Mr. Prakash P. Chhabria	Executive Chairman
Ms. Bhumika L. Batra	Independent Director
Mrs. Ritu P. Chhabria	Non Executive Non Independent Director
Mrs. Kanchan U. Chitale	Independent Director
Mr. Anil V. Whabi	MD
Mr. Saurabh S. Dhanorkar	Non Executive Non Independent Director
Dr. Deepak R. Parikh	Independent Director
Mr. Pradeep R. Rath	Independent Director
Mr. Anami N. Roy	Independent Director
Mr. Soumya Chakrabarti	Director (Technical)
Mr. Ajit Venkataraman	CEO
Mr. Niraj Kedia	CFO

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	46,473	45,384	47,503	52,691
YoY gr. (%)	34.2	(2.3)	4.7	10.9
Cost of Goods Sold	28,491	32,620	31,827	35,619
Gross Profit	17,983	12,764	15,676	17,072
Margin (%)	38.7	28.1	33.0	32.4
Employee Cost	1,908	2,042	2,185	2,339
Other Expenses	1,974	2,496	1,900	2,108
EBITDA	10,237	4,867	7,648	8,462
YoY gr. (%)	3.5	(52.5)	57.1	10.6
Margin (%)	22.0	10.7	16.1	16.1
Depreciation and Amortization	834	863	912	962
EBIT	9,403	4,004	6,735	7,500
Margin (%)	20.2	8.8	14.2	14.2
Net Interest	141	250	202	198
Other Income	822	1,068	1,100	1,200
Profit Before Tax	13,831	4,822	7,633	8,502
Margin (%)	29.8	10.6	16.1	16.1
Total Tax	3,181	802	1,946	2,165
Effective tax rate (%)	23.0	16.6	25.5	25.5
Profit after tax	10,650	4,020	5,687	6,337
Minority interest	(15)	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,664	4,020	5,687	6,337
YoY gr. (%)	47.8	(62.3)	41.5	11.4
Margin (%)	22.9	8.9	12.0	12.0
Extra Ord. Income / (Exp)	(3,761)	-	-	-
Reported PAT	6,904	4,020	5,687	6,337
YoY gr. (%)	(4.3)	(41.8)	41.5	11.4
Margin (%)	14.9	8.9	12.0	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,904	4,020	5,687	6,337
Equity Shares O/s (m)	620	620	620	620
EPS (Rs)	17.2	6.5	9.2	10.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	24,650	26,255	27,755	29,255
Tangibles	24,650	26,255	27,755	29,255
Intangibles	-	-	-	-
Acc: Dep / Amortization	14,718	15,581	16,493	17,455
Tangibles	14,718	15,581	16,493	17,455
Intangibles	-	-	-	-
Net fixed assets	9,932	10,674	11,261	11,800
Tangibles	9,932	10,674	11,261	11,800
Intangibles	-	-	-	-
Capital Work In Progress	95	240	240	240
Goodwill	-	-	-	-
Non-Current Investments	12,033	13,113	13,113	13,113
Net Deferred tax assets	(1,104)	(1,104)	(1,104)	(1,104)
Other Non-Current Assets	543	543	543	543
Current Assets				
Investments	16,300	15,300	14,500	13,500
Inventories	10,155	9,782	9,810	10,832
Trade receivables	3,345	3,266	3,419	3,792
Cash & Bank Balance	881	2,459	5,210	8,549
Other Current Assets	-	-	-	-
Total Assets	54,336	55,768	58,487	62,760
Equity				
Equity Share Capital	1,241	1,241	1,241	1,241
Other Equity	38,037	40,119	43,062	46,342
Total Networkth	39,278	41,360	44,303	47,583
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	155	155	155	155
Other non current liabilities	779	779	779	779
Current Liabilities				
ST Debt / Current of LT Debt	2,780	2,780	2,280	2,280
Trade payables	4,634	4,523	4,801	4,732
Other current liabilities	4,569	4,049	4,011	4,986
Total Equity & Liabilities	54,336	55,768	58,487	62,760

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	13,831	4,922	7,733	8,602
Add. Depreciation	834	863	912	962
Add. Interest	141	250	202	198
Less Financial Other Income	822	1,068	1,100	1,200
Add. Other	(4,583)	(1,068)	(1,100)	(1,200)
Op. profit before WC changes	10,223	4,967	7,748	8,562
Net Changes-WC	(790)	464	95	(402)
Direct tax	(3,317)	(802)	(1,946)	(2,165)
Net cash from Op. activities	6,115	4,629	5,897	5,995
Capital expenditures	(756)	(1,750)	(1,500)	(1,500)
Interest / Dividend Income	822	1,068	1,100	1,200
Others	64	(1,080)	-	-
Net Cash from Inv. activities	130	(1,762)	(400)	(300)
Issue of share cap. / premium	-	-	-	-
Debt changes	742	-	(500)	-
Dividend paid	(3,262)	(2,038)	(2,843)	(3,157)
Interest paid	(141)	(250)	(202)	(198)
Others	-	-	-	-
Net cash from Fin. activities	(2,661)	(2,288)	(3,546)	(3,356)
Net change in cash	3,584	578	1,951	2,339
Free Cash Flow	5,359	2,879	4,397	4,495

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	17.2	6.5	9.2	10.2
CEPS	18.5	7.9	10.6	11.8
BVPS	63.3	66.7	71.4	76.7
FCF	8.6	4.6	7.1	7.2
DPS	4.0	3.9	2.2	2.6
Return Ratio(%)				
RoCE	24.9	9.3	14.8	15.6
ROIC	35.2	13.2	19.6	21.4
RoE	30.2	10.0	13.3	13.8
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	70	69	65	69
Valuation(x)				
PER	9.8	26.1	18.4	16.6
P/B	2.7	2.5	2.4	2.2
P/CEPS	9.1	21.5	15.9	14.4
EV/EBITDA	8.8	18.5	11.4	10.1
EV/Sales	1.9	2.0	1.8	1.6
Dividend Yield (%)	2.4	2.3	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	15,946	11,898	9,411	11,248
YoY gr. (%)	27.6	23.2	(13.1)	11.9
Raw Material Expenses	11,083	7,999	8,528	7,602
Gross Profit	4,863	3,900	883	3,646
Margin (%)	30.5	32.8	9.4	32.4
EBITDA	2,647	1,259	(1,427)	919
YoY gr. (%)	(35.5)	(39.9)	(147.3)	(62.0)
Margin (%)	16.6	10.6	(15.2)	8.2
Depreciation / Depletion	216	213	216	225
EBIT	2,431	1,046	(1,642)	694
Margin (%)	15.2	8.8	(17.5)	6.2
Net Interest	81	113	43	51
Other Income	248	251	393	278
Profit before Tax	2,974	1,183	(1,293)	921
Margin (%)	18.7	9.9	(13.7)	8.2
Total Tax	1,421	182	(353)	260
Effective tax rate (%)	47.8	15.4	27.3	28.3
Profit after Tax	1,553	1,001	(939)	660
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,553	1,001	(939)	660
YoY gr. (%)	(47.8)	(32.0)	(140.0)	(62.9)
Margin (%)	9.7	8.4	(10.0)	5.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,553	1,001	(939)	660
YoY gr. (%)	(47.8)	(32.0)	(140.0)	(62.9)
Margin (%)	9.7	8.4	(10.0)	5.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,553	1,001	(939)	660
Avg. Shares O/s (m)	620	620	620	620
EPS (Rs)	2.5	1.6	(1.5)	1.1

Source: Company Data, PL Research

March 1, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	26,568	27,879	30,476	33,839
EBITDA (Rs. m)	4,188	2,225	4,026	4,775
Margin (%)	15.8	8.0	13.2	14.1
PAT (Rs. m)	2,526	1,018	2,300	2,803
EPS (Rs.)	22.9	9.2	20.8	25.4
Gr. (%)	10.3	(59.7)	125.9	21.9
DPS (Rs.)	3.5	4.0	4.5	5.0
Yield (%)	0.6	0.7	0.8	0.9
RoE (%)	21.9	7.9	16.3	17.4
RoCE (%)	27.8	10.3	20.3	21.5
EV/Sales (x)	2.3	2.2	1.9	1.7
EV/EBITDA (x)	14.8	27.1	14.7	12.3
PE (x)	24.2	60.0	26.6	21.8
P/BV (x)	4.8	4.6	4.1	3.5

Key Data

PRCE.BO | PRINCIP IN

52-W High / Low	Rs.730 / Rs.510
Sensex / Nifty	58,962 / 17,304
Market Cap	Rs.61bn/ \$ 739m
Shares Outstanding	111m
3M Avg. Daily Value	Rs.121.56m

Shareholding Pattern (%)

Promoter's	62.94
Foreign	4.41
Domestic Institution	15.46
Public & Others	17.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.3)	(5.9)	(14.2)
Relative	(10.4)	(5.0)	(18.1)

Praveen Sahay

praveensahay@plindia.com | 91-22-66322369

Prince Pipes and Fittings (PRINCIP IN)

Rating: BUY | CMP: Rs552 | TP: Rs693

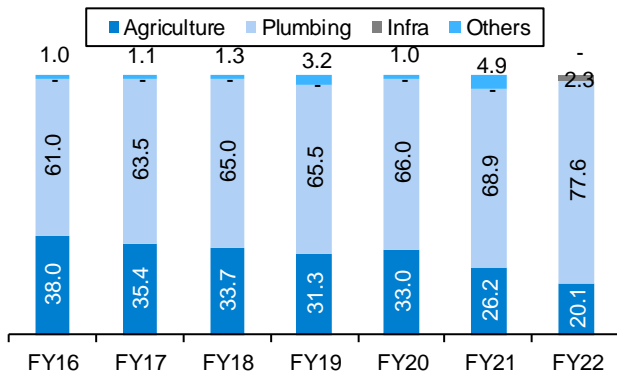
Pure play plastic pipe company

We initiate coverage on Prince Pipes and Fittings Ltd (PRINCIP) with 'BUY' rating and target price of Rs693 based on 27x FY25E EPS which is discount of 10% to its historical average PE. The company is well placed to capitalize on huge opportunities in plastic pipes space as it is 1) one of India's largest pipe & fittings manufacturer, 2) overall capacity of 315K MTPA spread across 7 facilities and 3) wide distribution network of 1500+ channel partners with product portfolio of over 7,200+ SKUs. Over FY17-22 the company reported healthy Revenue/EBITDA/Net profit CAGR of 16.3%/20.6%/27.4% along with improving operating margins (expanded by 260bps over same period) and robust return ratios (avg. RoCE of 23.4% over same period). Given majority of near term capex to complete by FY23, we believe PRINCIP's performance should further improve through focus on increasing asset turns, debt repayment and better FCF generation. The stock is currently trading at 27x/22x FY24E/FY25 earnings. Initiate 'BUY'.

- Pure play plastic pipe; ready to capture uptrend in demand:** PRINCIP is only company out of our coverage in plastic pipe sector, where almost 100% revenue comes from pipe segment. PRINCIP is continuously enhancing its capacity, expanding distribution, getting newer products and investing in branding, which thereby benefits the company's demand uptrend and results in market share gains. PRINCIP has completed near term capex with negligible debt, hence its performance should improve with demand coupled with focus on increasing asset turns and better FCF generation. We expect PRINCIP to report revenue/EBITDA/PAT CAGR of 10.2%/46.5%/65.9% over FY23-FY25E. Revenue contribution for PRINCIP was higher from north & west India in the past, now with manufacturing facility in Telangana, expanding warehouse & distributor network, PRINCIP is widening its reach in pan-India to gain market share and bring healthy growth.
- Wide product portfolio with multi-location manufacturing:** PRINCIP is focusing on capturing wide market of plastic pipe & fittings through its exhaustive product basket. PRINCIP has steadily increased capacity of higher margin products over last 5 years and is further introducing value added products to ensure cost efficiency and enhanced market share. PRINCIP follows the strategy of multi-location manufacturing to gain market share and restrict expenses. The company has seven manufacturing facilities spread across north, west, central and south India. It also operates eight warehouses (on lease) to focus on efficient supply and timely services.
- Focus on branding and distributions:** PRINCIP's focus is now on going beyond 'differentiation' to 'premiumisation' of PRINCIP brand, in order to combat competition and create customer-led pull demand. Hence it has increased expenses related to advertisement & promotion (1.3% sales in FY17 to 3.4% sales in FY22) and expects it to be maintained at 2.0% to 2.5% of sales in coming years.

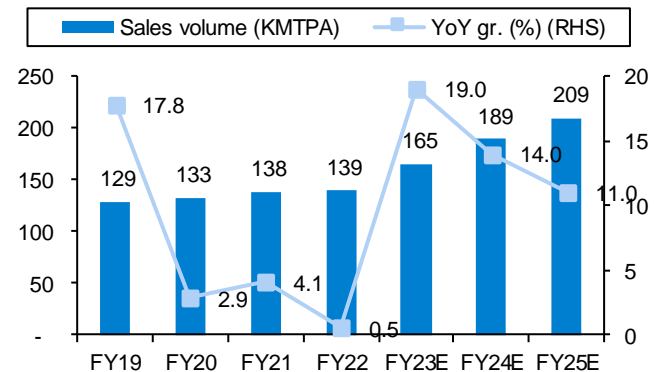
Story in Charts

Exhibit 82: The only pipe portfolio with diversified end users



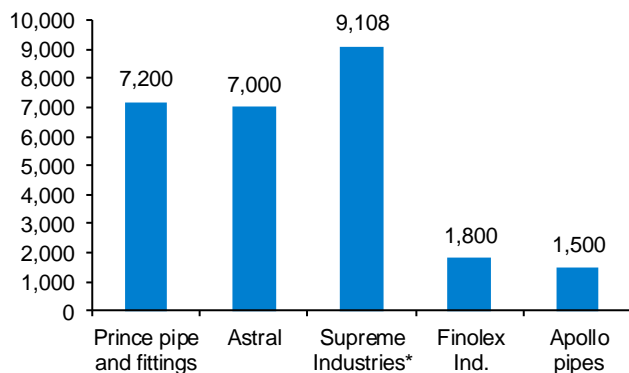
Source: Company, PL

Exhibit 83: Sales volume growth drives the revenue



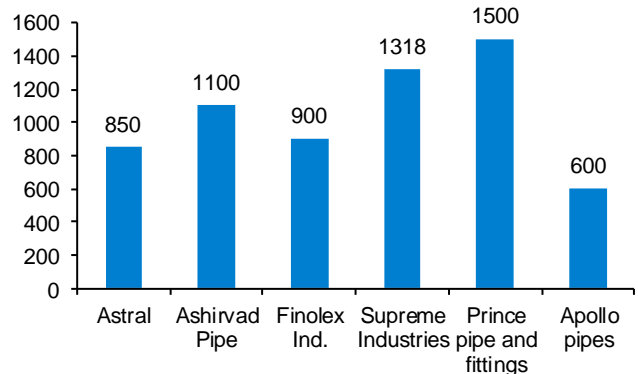
Source: Company, PL

Exhibit 84: One of largest product SKUs in plastic pipe sector



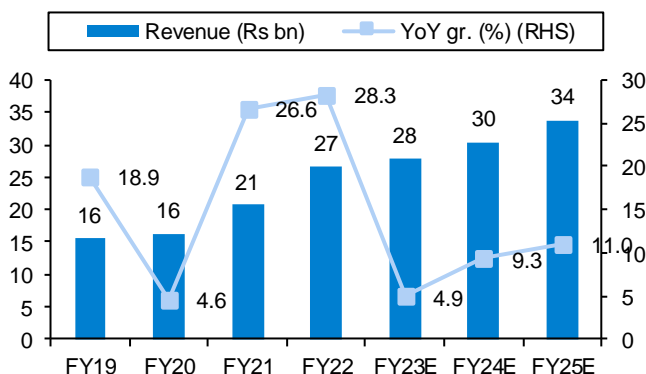
Source: Company, PL

Exhibit 85: PRINCEPI - Strong distribution network



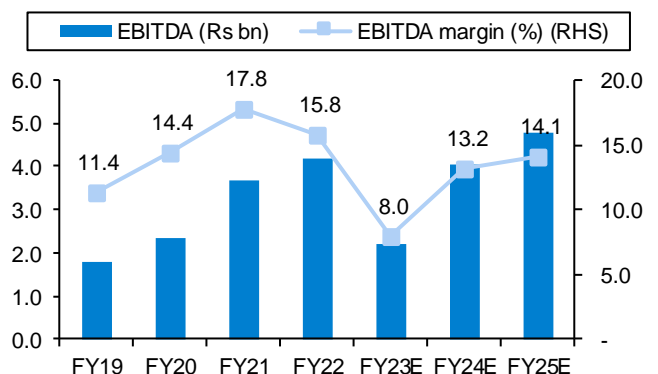
Source: Company, PL

Exhibit 86: Revenue to clock 10.2% CAGR over FY23-25E



Source: Company, PL

Exhibit 87: EBITDA margin expected to improve by 610bps



Source: Company, PL

PRINCPIP - Paving way for growth

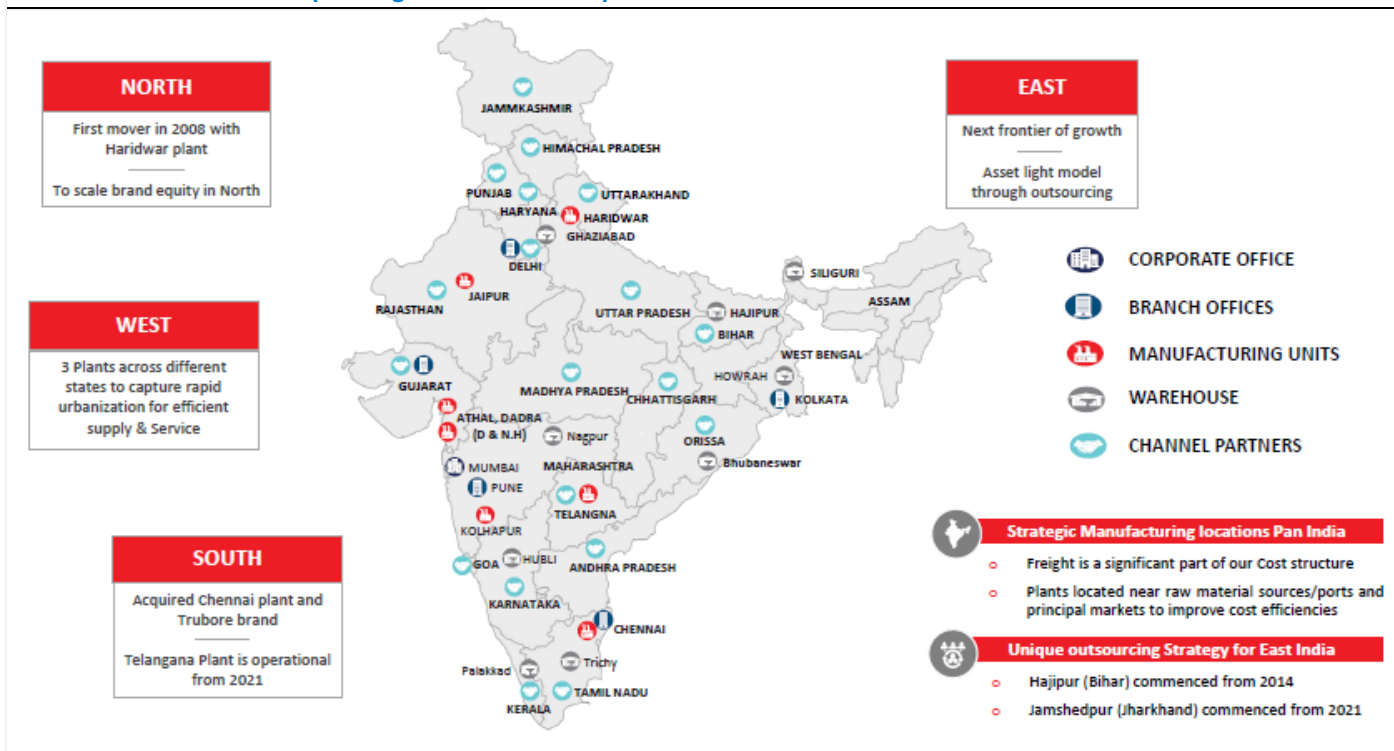
Incorporated in 1987, PRINCPIP is one of India's largest pipe & fittings manufacturer. Over 3 decades, PRINCPIP has been engaged in manufacturing of polymer piping solutions in five types of polymers - CPVC, UPVC, HDPE, PPR and LLDP. PRINCPIP has emerged as one of the fastest growing companies in the Indian pipes and fittings industry. PRINCPIP operates through seven strategically located manufacturing plants giving it strong presence in North, West and South India. PRINCPIP has overall capacity of 315K MTPA spread across these 7 facilities. The company has wide distribution network of 1500+ channel partners and has product portfolio of over 7,200+ SKUs. PRINCPIP had collaborated with Lubrizol of U.S - the world's largest manufacturers and inventors of CPVC compounds. This gives PRINCPIP exclusivity to bring Prince Flowguard Plus (CPVC plumbing systems)/Corzan (the CPVC industrial piping systems) to the market.

Exhibit 88: Wide product basket – Pipe & fittings



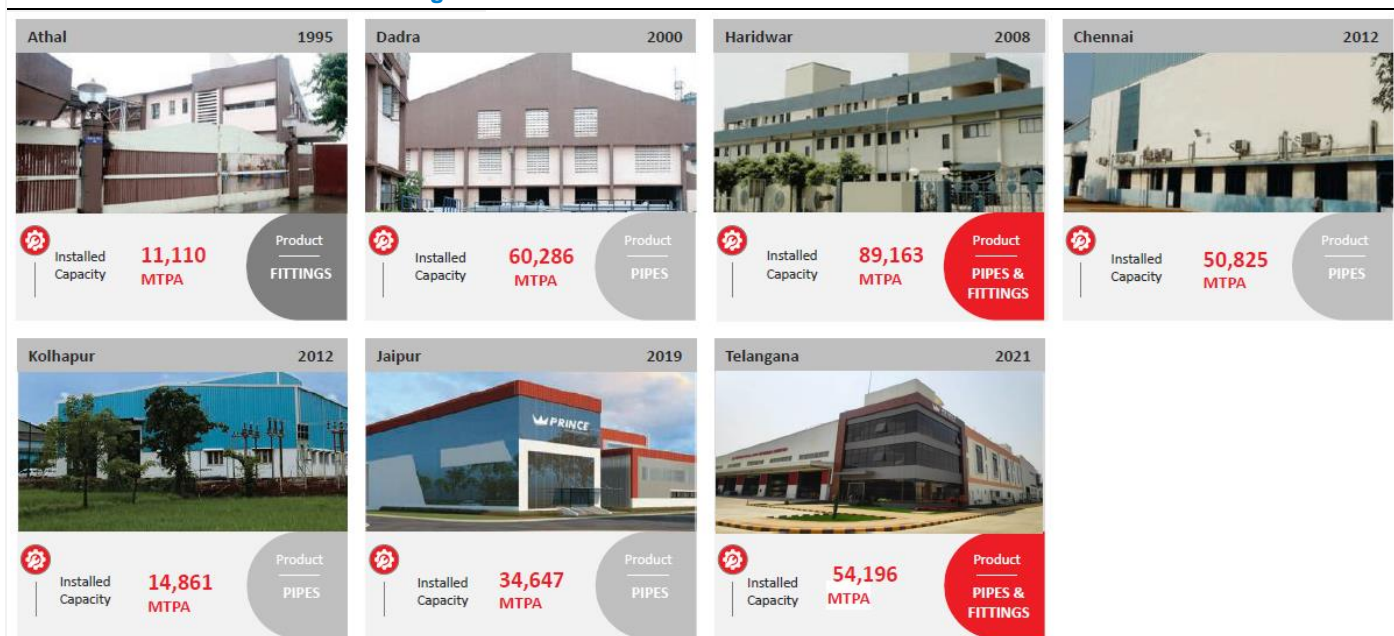
Source: Company, PL

Exhibit 89: PRINCEPIP is expanding its reach across pan-India



Source: Company, PL

Exhibit 90: PRINCEPIP – Manufacturing facilities



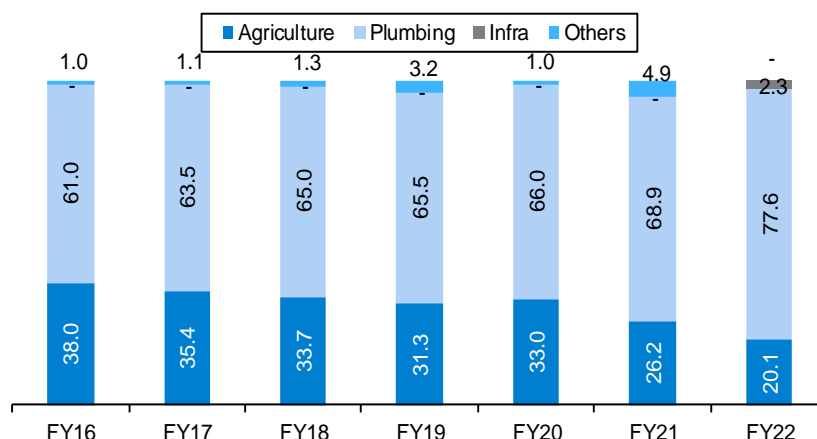
Source: Company, PL

Investment Arguments

Pure play of plastic pipe; ready to capture demand

PRINCEPI is only company out of our coverage in plastic pipe sector, where almost 100% revenue comes from pipe segment. PRINCEPI is continuously enhancing its capacity, expanding distribution, getting newer products and investing in branding, which thereby benefits the company's demand uptrend and results in market share gains within plastic pipe sector. PRINCEPI has completed near term capex with negligible debt, hence its performance should improve (with stabilisation in PVC resin prices) and along with demand (with softening of prices) coupled with focus on increasing asset turns and better FCF generation. We expect PRINCEPI to report Revenue/EBITDA/PAT CAGR of 10.2%/46.5%/65.9% over FY23-FY25E. We believe current situation is very conducive to growth in pipe sector with tailwinds of strong real estate, affordable PVC price and company's additional capacity commissioning at Jaipur and Telangana plants (additional ~18k MTPA), which will benefit PRINCEPI during uptrend in demand.

Exhibit 91: The only pipe portfolio with diversified end users



Source: Company, PL

Wide product portfolio with multi-location manufacturing

PRINCEPI is focusing to capture wide market of plastic pipe & fittings through its exhaustive product basket. The company manufactures products using five types of polymers – CPVC, UPVC, HDPE, PPR and LLDP – catering to extensive industry applications in plumbing, sewage, irrigation, industrial and underground drainage. PRINCEPI has product portfolio of over 7,200+ SKUs serving wide range of industry applications.

The company has steadily increased its capacity of higher margin products over last 5 years. Post tie-up with Lubrizol, PRINCEPI has strengthened its CPVC pipe portfolio and aims to improve contribution from private project business. The company is also introducing value added products to ensure cost efficiency and enhance market share.

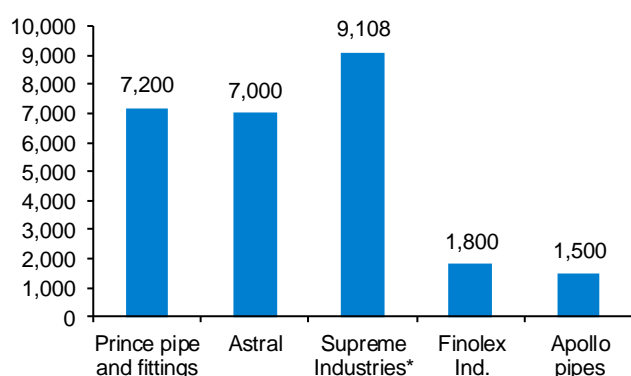
Wide product portfolio of over 7,200+ SKUs

Seven manufacturing facilities and eight warehouses across India

PRINCIPI follows the strategy of multi-location manufacturing to gain market share and restrict expenses. Pipe being a bulky product, transportation and logistics expenses become critical to manufacturers. Thus, multi-location manufacturing helps the company to make the product available at right time at right price to capture growth. PRINCIPI have seven manufacturing facilities spread across north, west, central and south India. Along with these, the company operates eight warehouses (on lease) to focus on efficient supply and timely services.

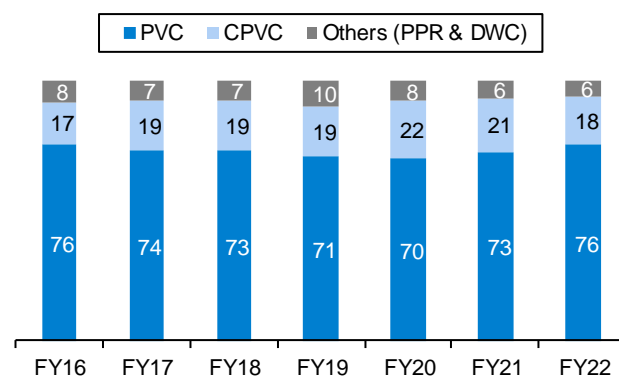
In the past, revenue contribution of PRINCIPI was higher from north & west India. Now with manufacturing facility in Telangana, expanding warehouse & distributor network, PRINCIPI is widening its reach pan-India to gain market share and bring healthy growth.

Exhibit 92: One of largest product SKUs in pipe sector



Source: Company, PL

Exhibit 93: PRINCIPI's diversifying revenue – CPVC rising



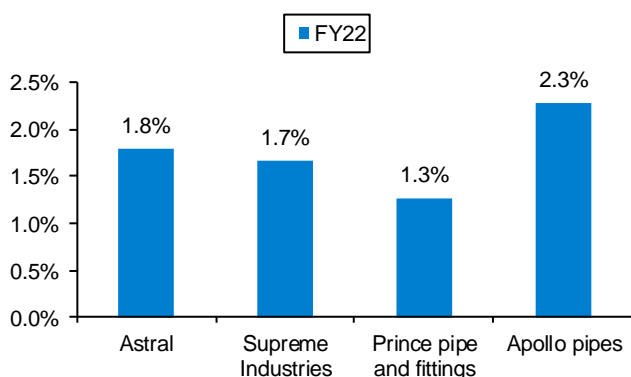
Source: Company, PL

Exhibit 94: Diversifying manufacturing locations

	Installed capacity (TPA)	Products	Year of establishment
Athal (Dadra & Nagar Haveli)	11,110	Fittings	1,995
Dadra (Dadra & Nagar Haveli)	60,286	Pipes	2,000
Haridwar (Uttarakhand)	89,163	Pipes and Fittings	2,008
Kolhapur (Maharashtra)	14,861	Pipes	2,012
Chennai (Tamil Nadu)	50,825	Pipes	2,012
Jaipur (Rajasthan)	34,647	Pipes	2,019
Sangareddy (Telangana)	54,196	Pipes and Fittings	2,021

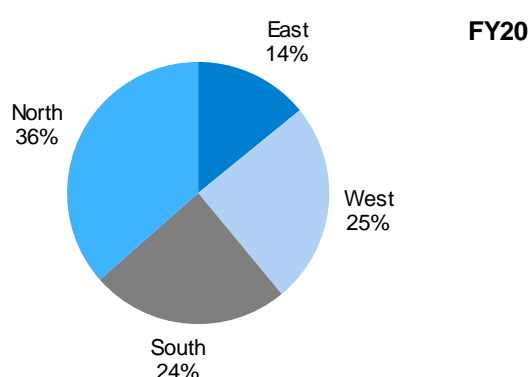
Source: Company, PL

Exhibit 95: Freight expenses as a % of sales



Source: Company, PL

Exhibit 96: PRINCIPI's diversifying geographical mix



Source: Company, PL

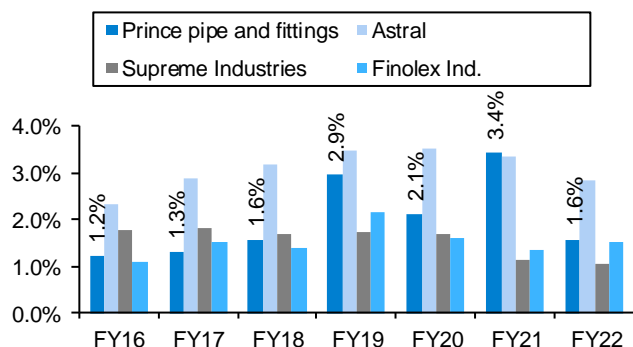
Focus on branding and distributions to reach pan India

PRINCIPI focus is now on going beyond 'differentiation' to 'premiumisation' of PRINCIPI brand to combat competition and create customer-led pull demand. Thus, the company has increased expenses related advertisement & promotion (1.3% sales in FY17 to 3.4% sales in FY22) and expects it to be maintained at 2.0%-2.5% of sales in coming years.

PRINCIPI's wide product portfolio and pan-India brand complemented with its continuous focusing on expanding pan India distribution network. The company has over 1500+ channel partners penetrated into urban, semi urban, Tier-II, Tier-III towns. The company is further strengthening its foothold in rural markets. PRINCIPI is also improving revenue per distributor with its wide product basket and focus on premiumisation.

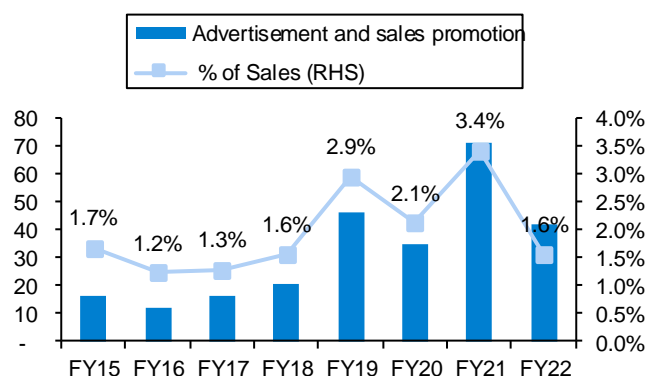
Exhibit 97: PRINCIPI - Brand focus to drive market share

Adv. & promotion expense as % sales



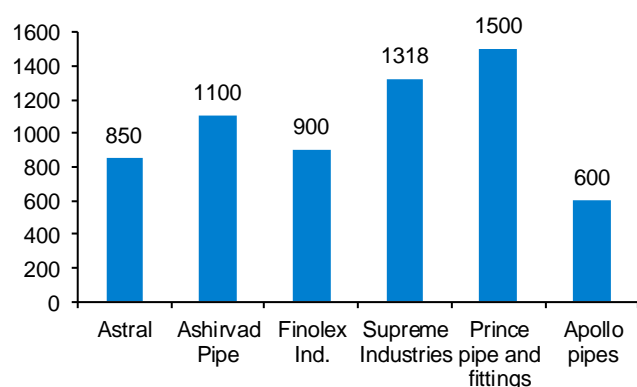
Source: Company, PL

Exhibit 98: Higher A&P expenses to enhance Brand Equity



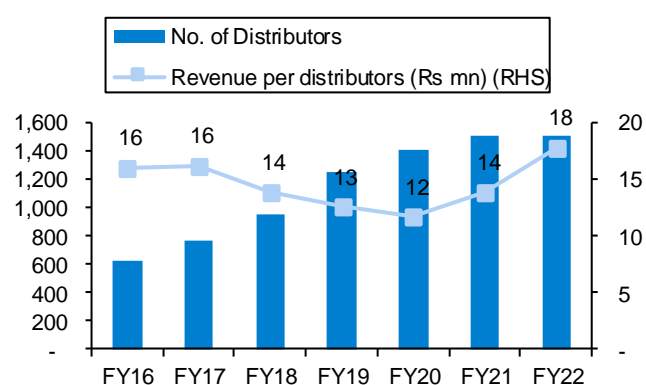
Source: Company, PL

Exhibit 99: PRINCIPI - Strong distribution network



Source: Company, PL

Exhibit 100: PRINCIPI - Improving revenue per distributors



Source: Company, PL

Note: Revenue per distributors down over FY17-20, due to increase in distributors which will bring growth in future

Exhibit 101: PRINCEPIP - Zero Defect Guarantee



Source: Company, PL

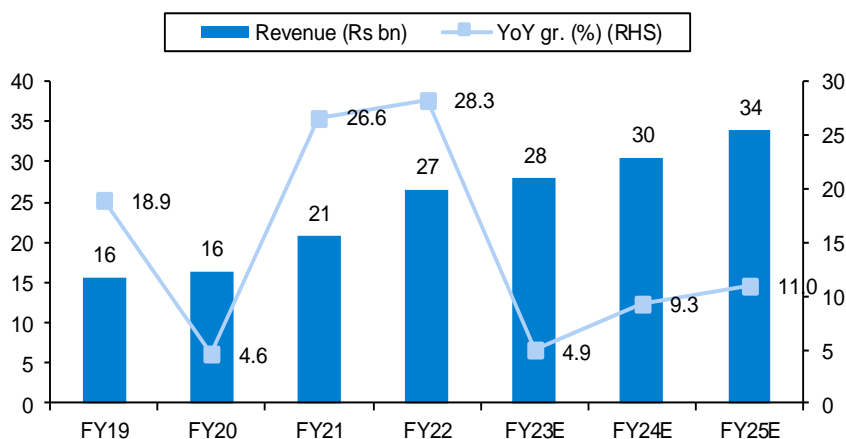
Financials

Estimate CAGR of 10.2% in revenue over FY23-25E

We expect revenue to report 10.2% CAGR over FY23-25 with plumbing plastic pipe contributing ~77% sales. The sales volume is expected to report 12.5% CAGR, while realisation will down from Rs 168.5/Kg to Rs 161.5/Kg during same period, due to correction PVC resin prices.

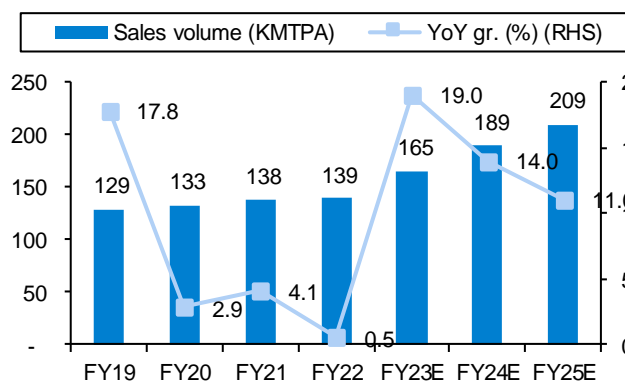
We expect sales volume to report 12.5% CAGR over FY23-25 led by 1) growing housing/infrastructure sector 2) consolidation of pipes sector 3) rising demand from irrigation sector and 4) new geographical penetration.

Exhibit 102: Revenue to clock 10.2% CAGR over FY23-25E



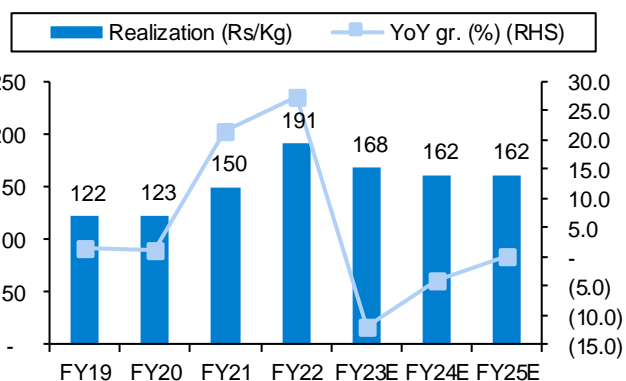
Source: Company, PL

Exhibit 103: Sales volume growth drives the revenue



Source: Company, PL

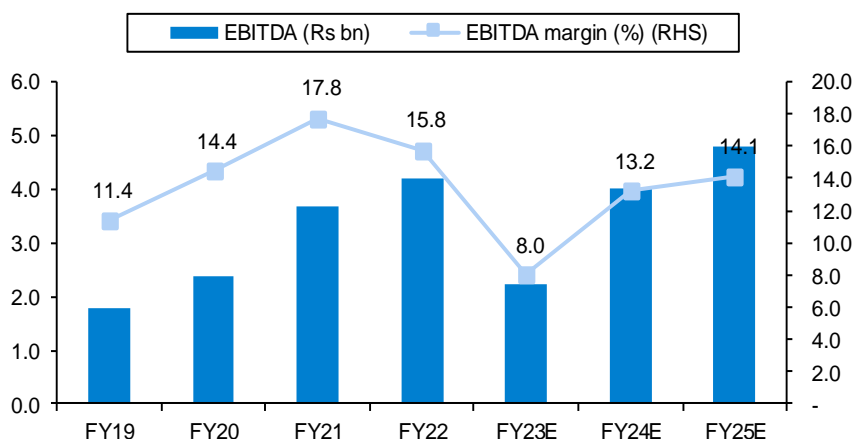
Exhibit 104: Realisation expected to correct



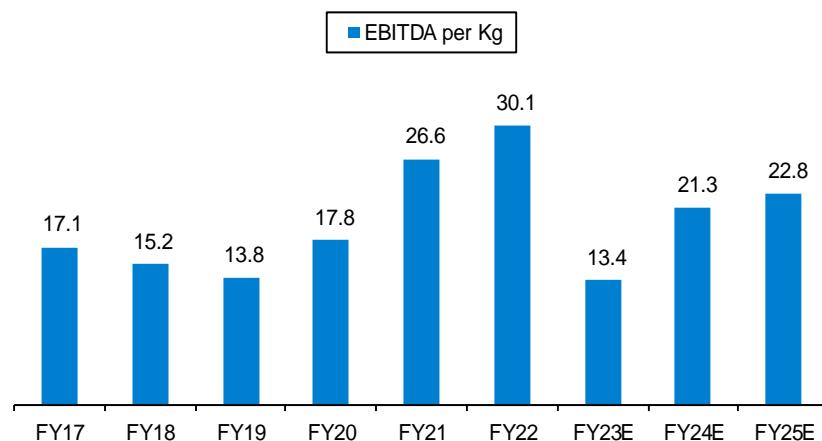
Source: Company, PL

EBITDA & PAT CAGR of 46.5% & 65.9% over FY23-25E

We estimate EBITDA CAGR of 46.5% over FY23-25 mainly on account of expansion in gross margin (600bps over FY23-25) and normalization in expenses to pre-pandemic level. We expect EBITDA margins (after contraction in FY23 by 780bps YoY) to improve over FY23-25 from 8.0% to 14.1%, with improvement in EBITDA per Kg from Rs 13.4/kg to Rs 22.8/Kg over FY23-25. PAT is estimated 65.9% CAGR over FY23-25, largely helped by sales volume growth and margins improvement.

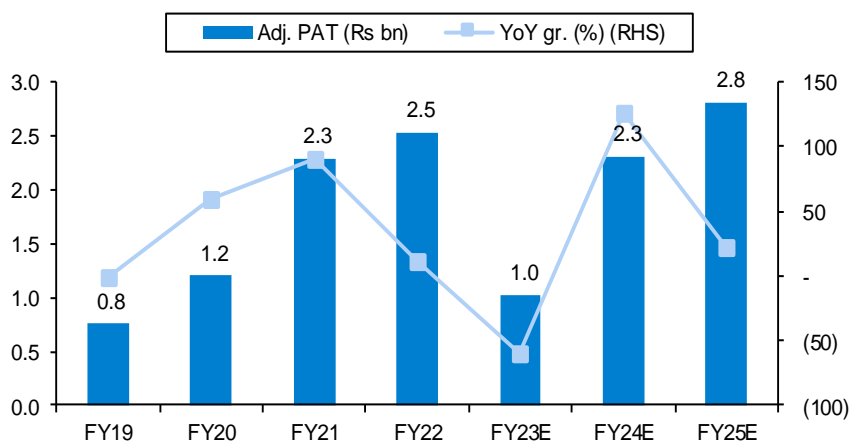
Exhibit 105: EBITDA margin expected to improve by 610bps over FY23-25

Source: Company, PL

Exhibit 106: EBITDA per Kg expected to improve to Rs 22.8/Kg by FY25E

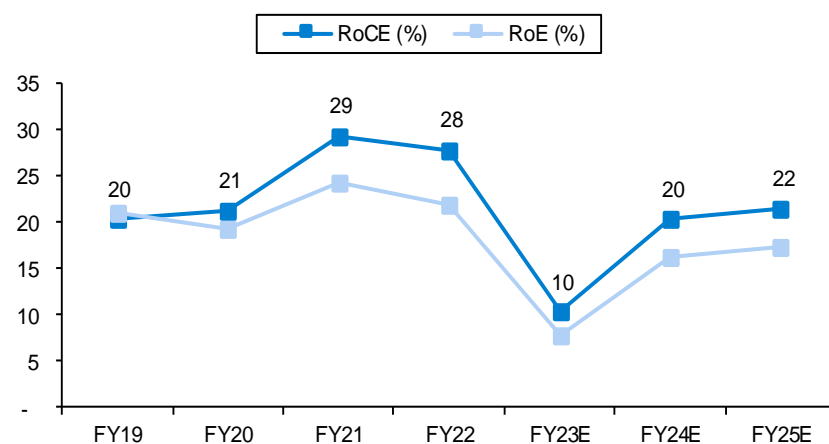
Source: Company, PL

Exhibit 107: PAT expected 65.9% CAGR over FY23-25E



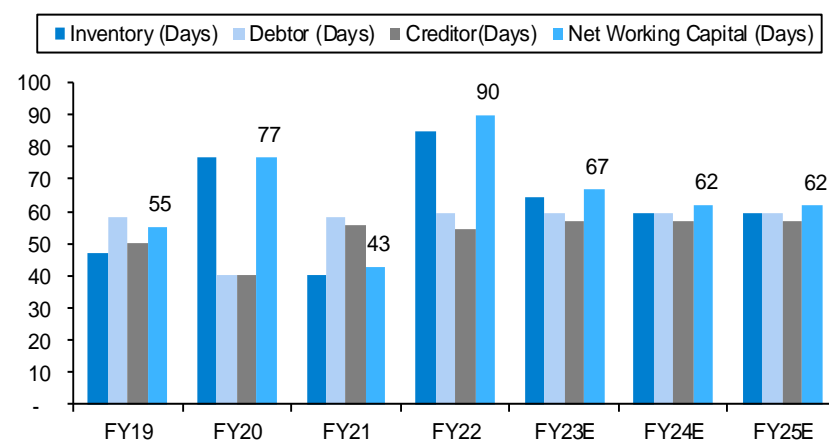
Source: Company, PL

Exhibit 108: PRINCEPIIP maintained higher return profile



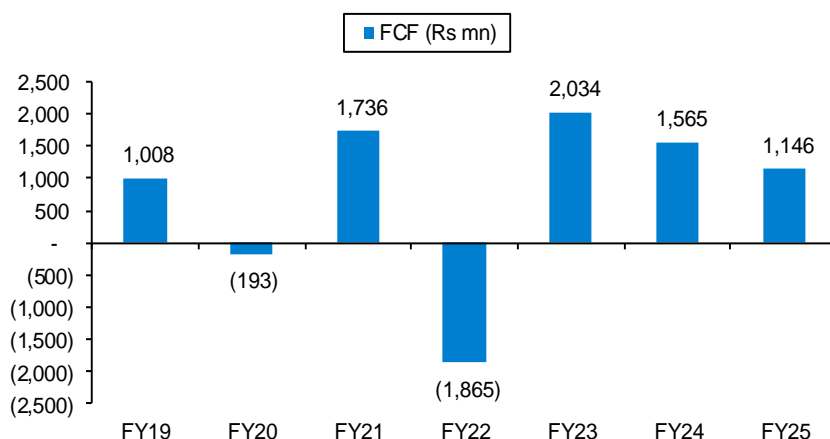
Source: Company, PL

Exhibit 109: Improving working capital



Source: Company, PL

Exhibit 110: Free cash flow expected to improve



Source: Company, PL

Exhibit 111: Quarterly Snapshot: Correction in realisation and inventory losses impacted Q2FY23 & Q3FY23

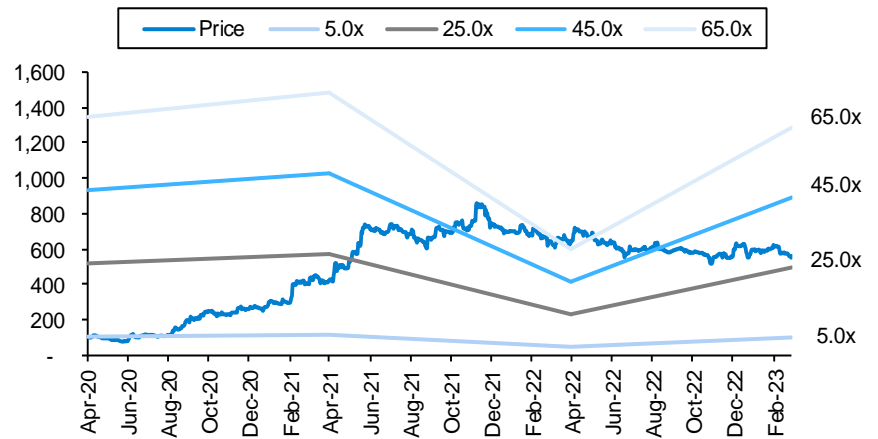
Particulars (Rs mn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Revenue from Operations	3,959	4,308	3,025	4,587	5,490	7,614	3,306	7,610	6,640	9,012	6,041	6,365	7,059
YoY gr.	11.8%	9.7%	-13.7%	-20.4%	6.9%	38.7%	76.7%	9.3%	65.9%	20.9%	18.4%	82.7%	182.7%
Gross Profit	1,289	1,314	829	1,519	1,927	2,653	985	2,132	2,075	2,461	1,256	832	1,576
margin %	32.6%	30.5%	27.4%	33.1%	35.1%	34.8%	29.8%	28.0%	31.3%	27.3%	20.8%	13.1%	22.3%
Other Expenses	756	737	513	716	897	1,185	572	905	964	1,056	818	945	881
% of sales	19.1%	17.1%	16.9%	15.6%	16.3%	15.6%	17.3%	11.9%	14.5%	11.7%	13.5%	14.9%	12.5%
EBITDA	533	576	316	803	1,029	1,468	413	1,227	1,111	1,405	439	-113	695
Margin	13.5%	13.4%	10.5%	17.5%	18.8%	19.3%	12.5%	16.1%	16.7%	15.6%	7.3%	-1.8%	9.8%
YoY gr.	23.4%	-1.2%	-40.0%	23.3%	93.0%	154.7%	30.5%	52.9%	8.0%	-4.3%	6.3%	-109.2%	-37.5%
Other Income	8	52	52	33	46	45	22	15	17	1	12	27	12
Depreciation	133	144	140	152	151	151	159	169	176	199	197	212	211
Interest	89	82	68	54	35	50	27	37	34	40	34	32	16
PBT	319	402	160	630	890	1,312	248	1,036	918	1,167	221	-330	480
Tax	76	119	47	164	222	340	71	275	245	284	60	-89	126
ETR	23.9%	29.7%	29.7%	26.0%	24.9%	25.9%	28.5%	26.5%	26.7%	24.4%	27.3%	27.0%	26.3%
Profit before JV/Associates/Minority Interest	243	283	113	466	668	972	178	761	673	882	160	-241	354
Share of JV/Associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Adj PAT	243	283	113	466	668	972	178	761	673	882	160	-241	354
Adj. PAT margin %	6.1%	6.6%	3.7%	10.2%	12.2%	12.8%	5.4%	10.0%	10.1%	9.8%	2.7%	-3.8%	5.0%
YoY gr.	40.8%	-5.4%	-57.6%	39.4%	175.1%	243.8%	57.8%	63.4%	0.8%	-9.2%	-9.7%	-131.7%	-47.4%
Exceptional item	-	-	-	-	-	-	-	-	-	-	-	-	1
Reported PAT	243	283	113	466	668	972	178	761	673	882	160	-241	354

Source: Company, PL

Valuation

PRINCE currently trading at 27x/22x FY24E/FY25E earnings is at discount to its average PE. We initiate coverage on Prince Pipes and Fittings Ltd (PRINCE) with 'BUY' rating and target price of Rs693 based on 27x FY25E EPS which is discount of 10% to its historical average PE.

Exhibit 112: PRINCE 1yr fwd PE chart



Source: Company, PL

Key Risks

- Any slowdown in real estate and infrastructure will directly impact demand for plumbing and sewerage infrastructure piping system (contribute ~77% of PRINCEPI's revenue).
- Any fluctuations in raw material prices like PVC or CPVC resins or forex will negatively impact profitability of the company.
- Increase in competitive intensity may negatively impact business and financials.

Board of Directors and KMP

- Mr. Jayant S.Chheda - Founder,Chairman and MD
- Mr. Parag J. Chheda - Joint Managing Director
- Mr. Vipul J. Chheda - Executive Director
- Mr. Nihar Chheda - Vice President Strategy
- Mr. Shyam Sharda - CFO

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	26,568	27,879	30,476	33,839
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	18,915	21,901	22,192	24,550
Gross Profit	7,653	5,978	8,284	9,289
Margin (%)	28.8	21.4	27.2	27.5
Employee Cost	1,520	1,583	1,720	1,755
Other Expenses	959	885	1,134	1,200
EBITDA	4,188	2,225	4,026	4,775
YoY gr. (%)	13.9	(46.9)	80.9	18.6
Margin (%)	15.8	8.0	13.2	14.1
Depreciation and Amortization	703	800	879	955
EBIT	3,485	1,425	3,146	3,820
Margin (%)	13.1	5.1	10.3	11.3
Net Interest	139	122	122	122
Other Income	55	63	49	49
Profit Before Tax	3,401	1,366	3,073	3,746
Margin (%)	12.8	4.9	10.1	11.1
Total Tax	875	348	773	943
Effective tax rate (%)	25.7	25.5	25.2	25.2
Profit after tax	2,526	1,018	2,300	2,803
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,526	1,018	2,300	2,803
YoY gr. (%)	10.8	(59.7)	125.9	21.9
Margin (%)	9.5	3.7	7.5	8.3
Extra Ord. Income / (Exp)	18	-	-	-
Reported PAT	2,545	1,018	2,300	2,803
YoY gr. (%)	9.4	(60.0)	125.9	21.9
Margin (%)	9.6	3.7	7.5	8.3
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	2,547	1,018	2,300	2,803
Equity Shares O/s (m)	111	111	111	111
EPS (Rs)	22.9	9.2	20.8	25.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	9,425	10,625	12,125	14,125
Tangibles	9,384	10,584	12,084	14,084
Intangibles	41	41	41	41
Acc: Dep / Amortization	2,624	3,424	4,303	5,258
Tangibles	2,624	3,424	4,303	5,258
Intangibles	-	-	-	-
Net fixed assets	6,801	7,201	7,822	8,866
Tangibles	6,760	7,160	7,781	8,826
Intangibles	41	41	41	41
Capital Work In Progress	226	226	226	226
Goodwill	-	-	-	-
Non-Current Investments	97	97	97	97
Net Deferred tax assets	(123)	(123)	(123)	(123)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	6,188	4,899	4,964	5,491
Trade receivables	4,346	4,561	4,985	5,536
Cash & Bank Balance	687	2,294	3,434	4,144
Other Current Assets	1,041	1,140	1,246	1,383
Total Assets	19,390	20,421	22,779	25,748
Equity				
Equity Share Capital	1,106	1,106	1,106	1,106
Other Equity	11,547	12,123	13,925	16,175
Total Network	12,653	13,229	15,031	17,281
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	127	127	127	127
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,500	1,574	1,721	1,911
Trade payables	3,986	4,365	4,771	5,298
Other current liabilities	1,002	1,004	1,007	1,009
Total Equity & Liabilities	19,390	20,421	22,779	25,748

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,369	1,366	3,073	3,746
Add. Depreciation	703	800	879	955
Add. Interest	139	122	122	122
Less Financial Other Income	55	63	49	49
Add. Other	(22)	(63)	(49)	(49)
Op. profit before WC changes	4,188	2,225	4,026	4,775
Net Changes-WC	(3,499)	1,357	(187)	(686)
Direct tax	(875)	(348)	(773)	(943)
Net cash from Op. activities	(185)	3,234	3,065	3,146
Capital expenditures	(1,680)	(1,200)	(1,500)	(2,000)
Interest / Dividend Income	55	63	49	49
Others	(35)	-	-	-
Net Cash from Invt. activities	(1,660)	(1,137)	(1,451)	(1,951)
Issue of share cap. / premium	5	-	-	-
Debt changes	648	74	147	190
Dividend paid	(387)	(442)	(498)	(553)
Interest paid	(139)	(122)	(122)	(122)
Others	105	-	-	-
Net cash from Fin. activities	233	(490)	(473)	(485)
Net change in cash	(1,612)	1,607	1,141	710
Free Cash Flow	(1,865)	2,034	1,565	1,146

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	22.9	9.2	20.8	25.4
CEPS	29.2	16.4	28.8	34.0
BVPS	114.4	119.6	135.9	156.3
FCF	(16.9)	18.4	14.2	10.4
DPS	3.5	4.0	4.5	5.0
Return Ratio(%)				
RoCE	27.8	10.3	20.3	21.5
ROIC	21.5	8.7	19.1	20.7
RoE	21.9	7.9	16.3	17.4
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	90	67	62	62
Valuation(x)				
PER	24.2	60.0	26.6	21.8
P/B	4.8	4.6	4.1	3.5
P/CEPS	18.9	33.6	19.2	16.3
EV/EBITDA	14.8	27.1	14.7	12.3
EV/Sales	2.3	2.2	1.9	1.7
Dividend Yield (%)	0.6	0.7	0.8	0.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	9,012	6,041	6,365	7,059
YoY gr. (%)	18.4	82.7	(16.4)	6.3
Raw Material Expenses	6,551	4,785	5,533	5,483
Gross Profit	2,461	1,256	832	1,576
Margin (%)	27.3	20.8	13.1	22.3
EBITDA	1,405	439	(113)	695
YoY gr. (%)	(4.3)	6.3	(109.2)	(37.5)
Margin (%)	15.6	7.3	(1.8)	9.8
Depreciation / Depletion	199	197	212	211
EBIT	1,206	242	(325)	484
Margin (%)	13.4	4.0	(5.1)	6.9
Net Interest	40	34	32	16
Other Income	1	12	27	12
Profit before Tax	1,167	221	(330)	480
Margin (%)	12.9	3.7	(5.2)	6.8
Total Tax	284	60	(89)	126
Effective tax rate (%)	24.4	27.3	27.0	26.3
Profit after Tax	882	160	(241)	354
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	882	160	(241)	354
YoY gr. (%)	(9.2)	(9.7)	(131.7)	(47.4)
Margin (%)	9.8	2.7	(3.8)	5.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	882	160	(241)	354
YoY gr. (%)	(9.2)	(9.7)	(131.7)	(47.4)
Margin (%)	9.8	2.7	(3.8)	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	882	160	(241)	354
Avg. Shares O/s (m)	110	110	111	111
EPS (Rs)	8.0	1.5	(2.2)	3.2

Source: Company Data, PL Research

March 1, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	77,728	90,866	1,01,741	1,12,327
EBITDA (Rs. m)	12,421	11,249	14,843	17,265
Margin (%)	16.0	12.4	14.6	15.4
PAT (Rs. m)	9,685	7,998	10,186	11,802
EPS (Rs.)	76.2	62.9	80.2	92.9
Gr. (%)	(1.0)	(17.4)	27.4	15.9
DPS (Rs.)	24.0	16.0	18.0	22.0
Yield (%)	0.9	0.6	0.7	0.8
RoE (%)	27.6	19.3	21.1	20.8
RoCE (%)	29.4	21.7	25.7	25.7
EV/Sales (x)	4.4	3.8	3.3	2.9
EV/EBITDA (x)	27.8	30.5	22.8	19.2
PE (x)	36.2	43.9	34.4	29.7
P/BV (x)	9.1	7.9	6.7	5.7

Key Data

SUPI.BO | SI IN

52-W High / Low	Rs.2,816 / Rs.1,666
Sensex / Nifty	58,962 / 17,304
Market Cap	Rs.351bn/ \$ 4,243m
Shares Outstanding	127m
3M Avg. Daily Value	Rs.254.01m

Shareholding Pattern (%)

Promoter's	48.85
Foreign	17.41
Domestic Institution	18.52
Public & Others	15.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.2	40.5	35.2
Relative	10.3	41.9	29.0

Praveen Sahay

praveensahay@plindia.com | 91-22-66322369

Supreme Industries (SI IN)

Rating: BUY | CMP: Rs2,761 | TP: Rs3,177

Undisputed leader in plastic piping system

We initiate coverage on Supreme Industries (SI) with a 'BUY' rating and target price of Rs 3,170 valuing it at 34x FY25E earnings. We believe SI is structurally placed to capture the plastic processing industry demands given 1) diverse product portfolio in piping systems, packaging products, industrial components and furniture, 2) 27 manufacturing locations across India, with wide pan India distributors network of 4053 channel partners 3) reported sales volumes of around 0.4-0.5mn MT annually and 4) strong industry-leading performance over past years in terms of earnings growth (CAGR of 16% over FY10-22), impressive return ratios (~29% average RoCE of last ten years), dividend pay-outs with maintain balance sheet strength (debt-free and controlled working capital cycle of 45days) and efficient governance. Over FY16-22 the company reported healthy Revenue/EBITDA/PAT CAGR of 17%/18%/28% and we expect 11.2%/23.9%/21.5% for FY23-25E, with improvement in EBITDA margin by 300bps. The stock is currently trading at 34x/29x FY24/25 earnings. Initiate 'BUY'.

Leader in plastic pipe; well placed to capture growth: SI is largest plastic pipe manufacturer in India with ~18% share in organized domestic plastic piping market. India's plastic pipe industry is expected to grow at ~12% CAGR over FY22-25 mainly on account of improvement in real estate and housing sector, government push for infrastructure and revival of industrial demand. SI is well placed to capitalize on future growth opportunities given (a) incremental capacities, one new plant and several brown field expansions planned for coming years, (b) wide product portfolio of 9108 products for 33 different applications, and (c) pan-India distribution network of 1319 Channel partners for pipe. For SI we expect 16% sales volume CAGR over FY22-25E, considering industry tailwinds and consolidation in market. Going forward, we expect piping segment's revenue growth to majorly come from volumes.

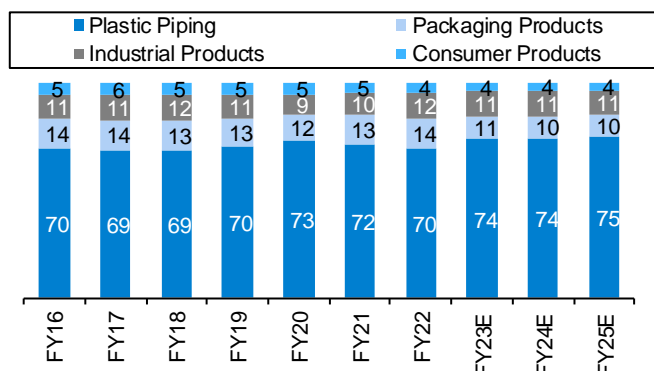
Diversified revenue mix with increasing share of VAP: SI has well diversified its business from piping business to non-piping (contributes ~34% revenue) in order to mitigate risk in any segment/industry through its diverse products basket. SI is also focused on value-added products (VAP) sales, which increased to 36.1% in 9MFY23 against 32.3% in FY14, thereby leading to improvement in margins. Accordingly, SI has maintained its EBITDA margin at ~16% over last ten years even after fluctuations in raw material prices.

Benefit of PVC resin price stabilization: PVC resin is a predominant raw material for SI. PVC resin prices have fallen by Rs66 per kg. i.e. 45% from Apr-2022 till Nov-2022 and stabilized at around Rs85-90/Kg. With stabilization of raw material prices, we expect SI to see improvement in volumes/EBITDA margin (11%CAGR/300bps over FY23-25E).

Valuation and Outlook: We estimate Sales/EBITDA/PAT CAGR of ~11%/24%/22% over FY23-25 led by 1) improving business with housing sector revival, 2) increasing distribution reach and 3) stabilisation of RM prices. We initiate coverage with 'BUY' rating and target price of Rs3,170 based on 34x FY25E EPS, at 15% premium to its long-term average one-year forward valuation, a 16% upside.

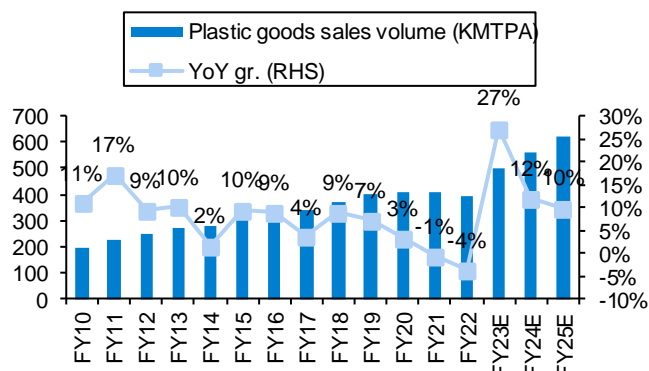
Story in Charts

Exhibit 113: Plastic piping – Maintained high Sales volume



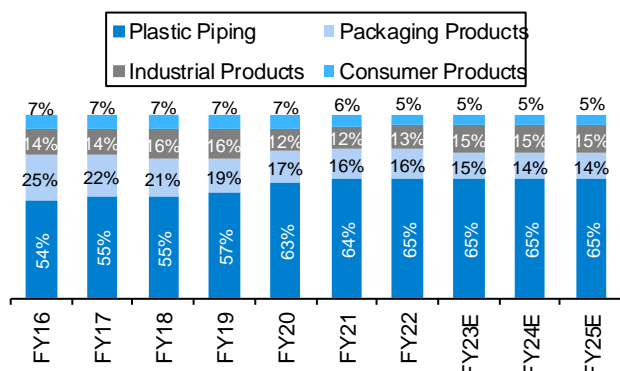
Source: Company, PL

Exhibit 114: Consistent growth in sales volume



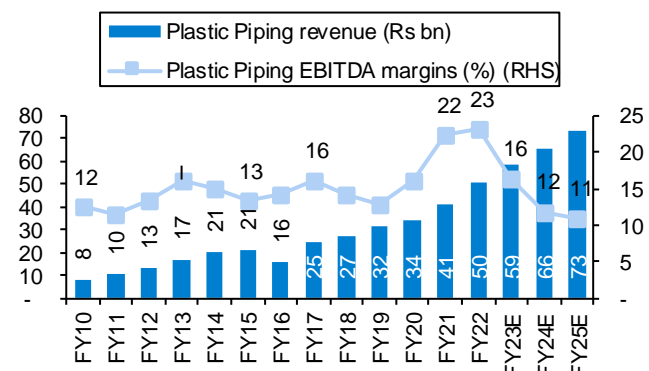
Source: Company, PL

Exhibit 115: SI's focus on pipe, rising revenue contribution



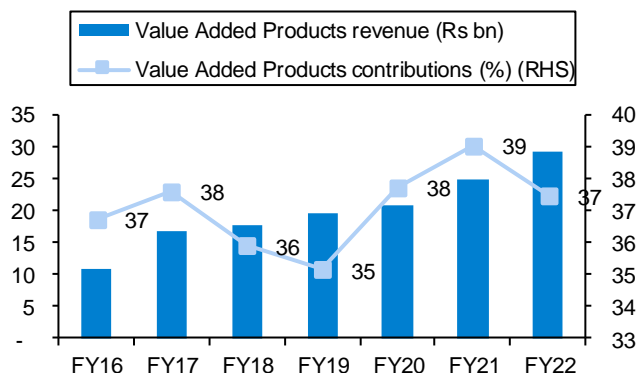
Source: Company, PL

Exhibit 116: Pipe revenue growing with sustained margin



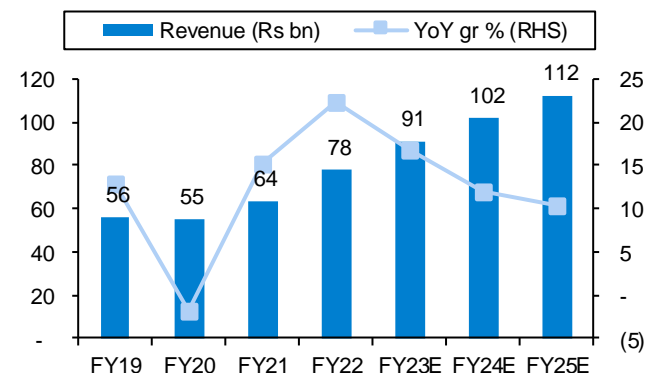
Source: Company, PL

Exhibit 117: Focus on value-added products contribution



Source: Company, PL

Exhibit 118: Revenue to clock 11.2% CAGR over FY23-25E

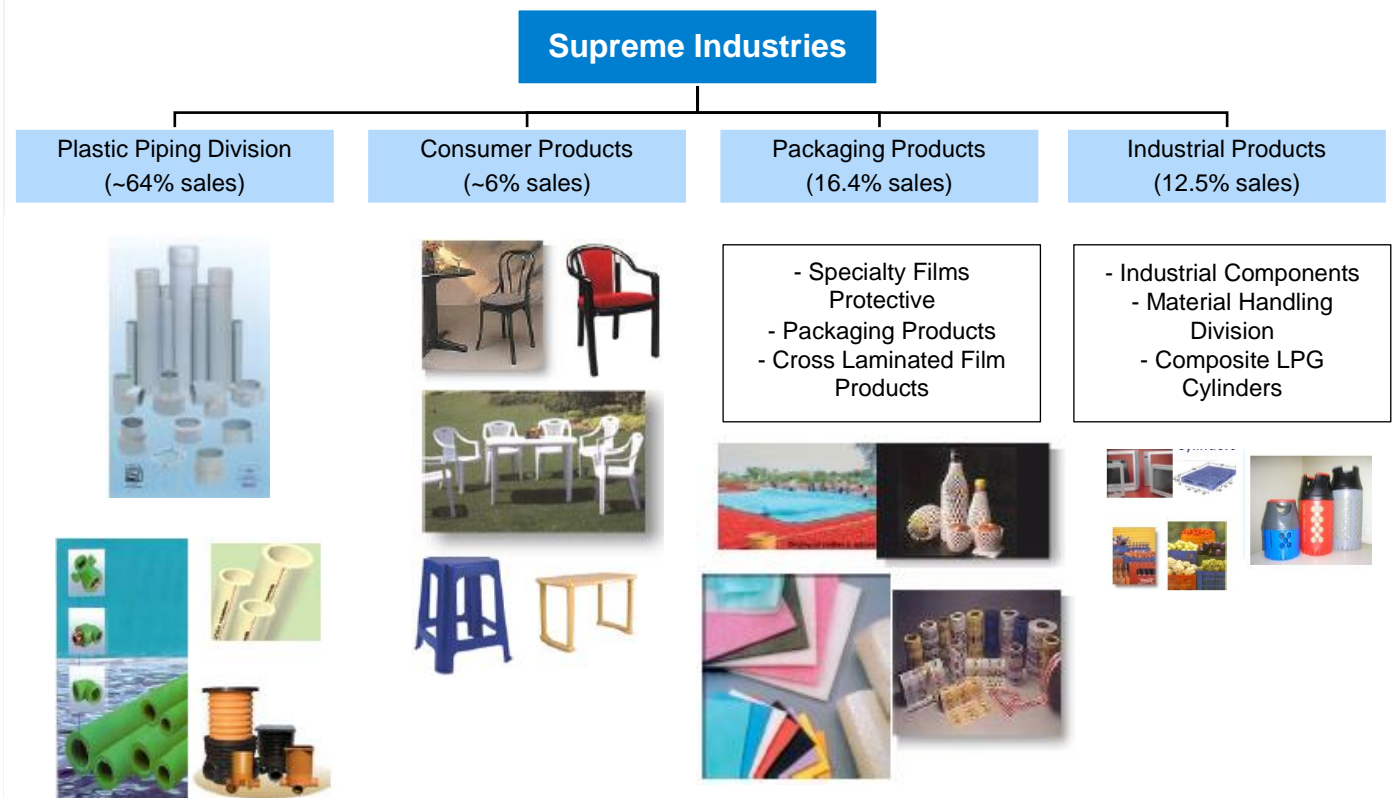


Source: Company, PL

About the Company

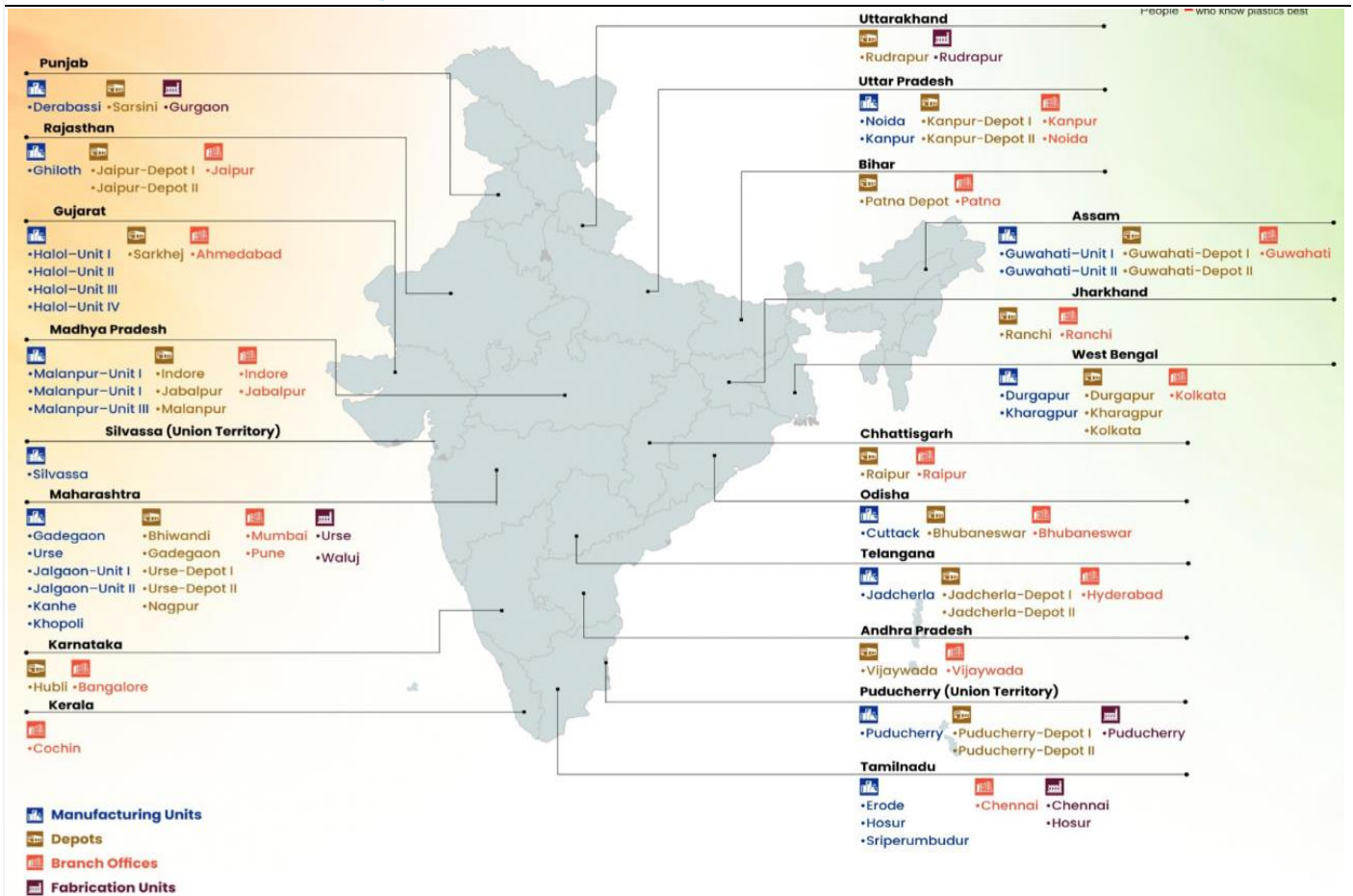
Supreme Industries (SI), India's leading processor of plastic, was incorporated in 1942 by Modi family and Taparia family took over the management in 1967. SI has diverse product portfolio comprising of piping systems, cross laminated films & products, protective packaging products, industrial molded components, molded furniture, storage and material handling products, performance packaging films & composite and liquefied petroleum gas cylinders. The company is one of the largest plastic processor in India, with sale volume of around 0.4-0.5mn MT annually with 27 manufacturing locations across India. It has been consistently increasing capacity in plastics processing. Over years, SI has managed to gain significant market share across product portfolio, mainly in plastic piping business. The company currently has around 4053 distributors of which 1,319 distributors are for pipes, 1,306 for furniture and remaining for other divisions.

Exhibit 119: SI's wide product basket



Source: Company, PL

Exhibit 120: SI's Pan India coverage



Source: Company, PL

Exhibit 121: SI focus on new product addition



Source: Company, PL

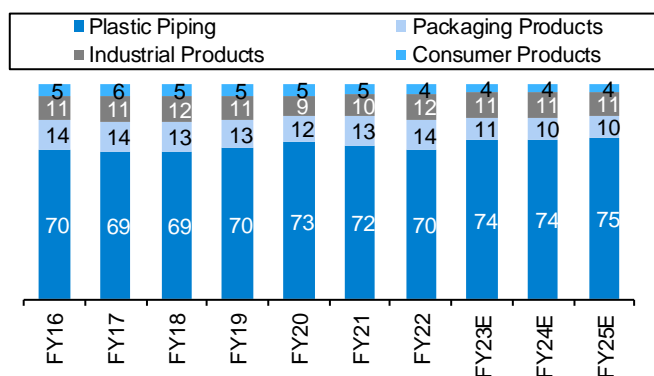
Investment Arguments

Leader in Plastic pipe with significant market share

SI is leader with ~18% market share in organized plastic pipe segment

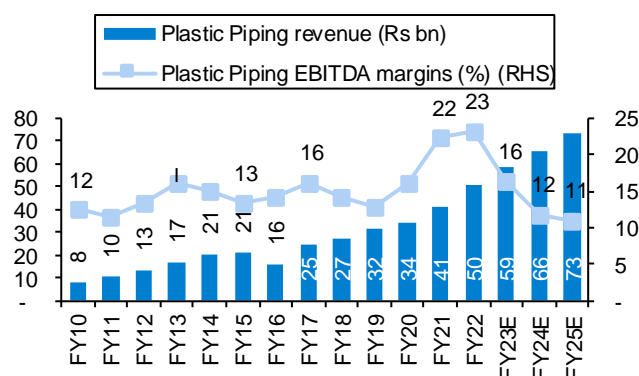
SI is largest plastic pipe manufacturer in India with ~18% share in organized domestic plastic piping market. Organized players service in ~65% of the market (which is slowly moving from unorganized players to organized players on account of multiple factors). The plastic piping sector is expected to deliver healthy growth of ~12% over FY22-25E on account of a) Government spending on infrastructure, irrigation, housing and sanitation b) Increasing construction activity, c) Rising demand from agriculture sector, and d) Replacement of aging Pipes.

Exhibit 122: Pipe – Maintained high Sales volume contribution



Source: Company, PL

Exhibit 123: Pipe rev. CAGR of 17% with sustained margin



Source: Company, PL

SI is well placed to capture growth

During FY10-15, SI delivered sales volume CAGR of 12% which moderated to 3% between FY16-22 mainly due to slowdown in end user industry and pandemic in FY21-22. However, we believe that the industry will deliver decent growth in coming years, 13% value CAGR over FY22-25E with industry tailwinds and consolidation in market. SI is well placed with incremental capacities, two new plants and several brown field expansions in FY23-24. Moreover, its pan-India distribution network of 4053 is also expected to capture upcoming growth opportunities.

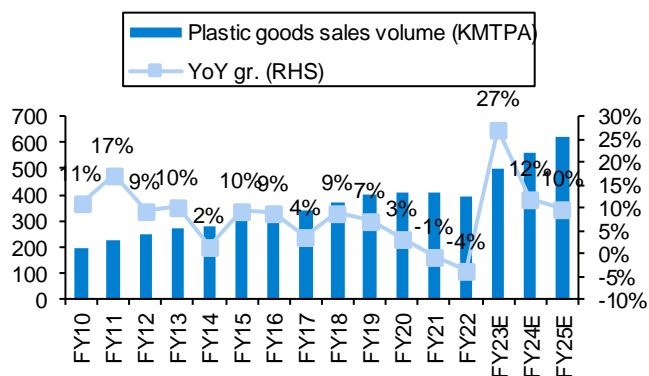
We believe that will capture long term growth for the sector as:

- It has wide product portfolio in plastic pipe system with 9108 products for 33 different application systems and is the only company to supply pipes and fittings from major polymers like PVC, CPVC, PE & PPR.
- The company has multi-location manufacturing units with diversified product manufacturing facilities across the country to capture market share. SI has strengthened its piping segment servicing through 1319 Channel partners. The company continues to expand its reach by appointing new distributors in areas where there is a gap in servicing. It has also started directly servicing retailers in selected markets for certain specific products of this division.

SI increased VAP contribution to ~42%

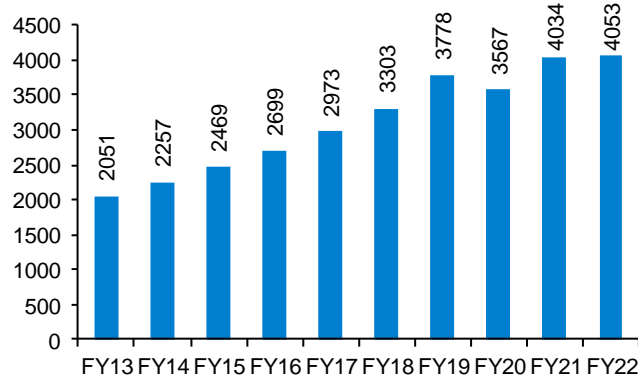
- SI is also focused on piping segment's value-added products sales, which increased to 41.89% in FY22 against 39.27% in the previous year, thereby leading to improvement in margins for the segment. Piping segment reported EBITDA margin of ~18% in FY22 against ~14% in FY16.
- SI has delivered sales volume CAGR of 12% over FY10-15 and around 3% during FY16-22, which is expected to improve to 19% CAGR over FY22-25E (12% CAGR over FY23-25). During FY16-22, piping realisation improved significantly to Rs 184/kg from Rs 69/kg, resulting in piping revenue CAGR of 21%. However, we believe that in coming years, piping segment's revenue growth will majorly come from volume.

Exhibit 124: Consistent growth in sales volume



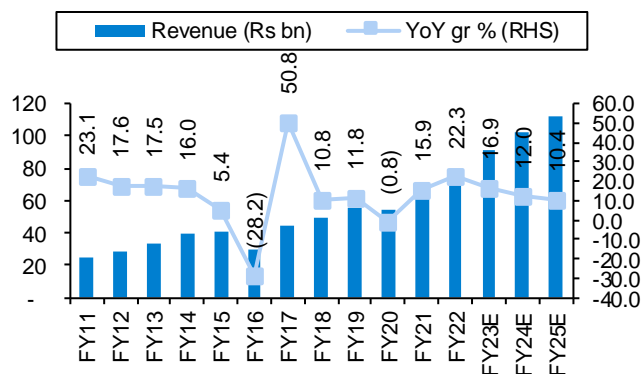
Source: Company, PL

Exhibit 125: SI – Doubled distribution network over FY10-22



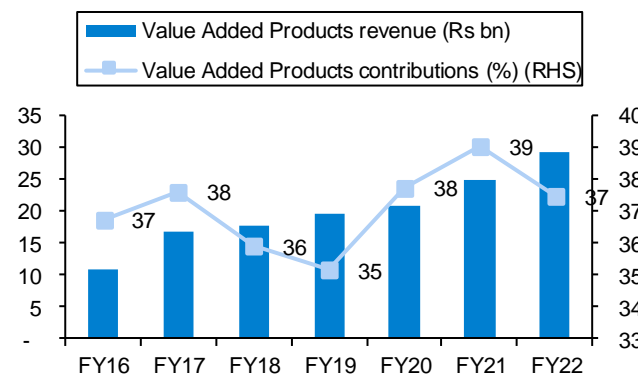
Source: Company, PL

Exhibit 126: Consistent revenue growth, 11% CAGR FY11-22



Source: Company, PL

Exhibit 127: Focus on value-added products contribution

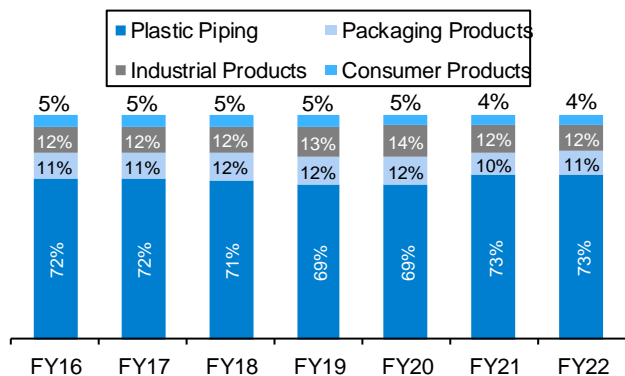


Source: Company, PL

Diversified revenue mix mitigates risk

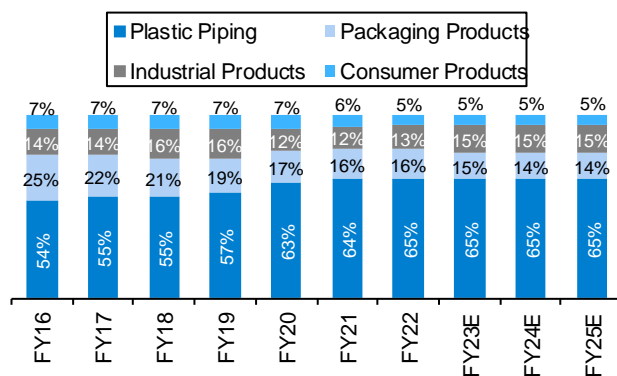
SI is not only an undisputed leader in plastic pipes (~18% market share in organized domestic plastic piping market), but also has presence across plastic usage - packaging, material handling, furniture, etc. The company's pipe business (~65% of revenue in FY22) is expected to benefit from industry's market consolidation and demand shift towards organized players. SI produces plastic-based products other than piping like - industrial products (13%), consumer products (5%) and packaging products (16%). The company mitigates risk in any segment/industry through its diverse products basket catering to different end-user profile. Furthermore, revenue is supported by increasing contribution of value-added products, increased to 36.1% in 9MFY23 against 32.3% in FY14, which have operating margin of over 17%.

Exhibit 128: Capacity breakup – Pipe continues to be highest



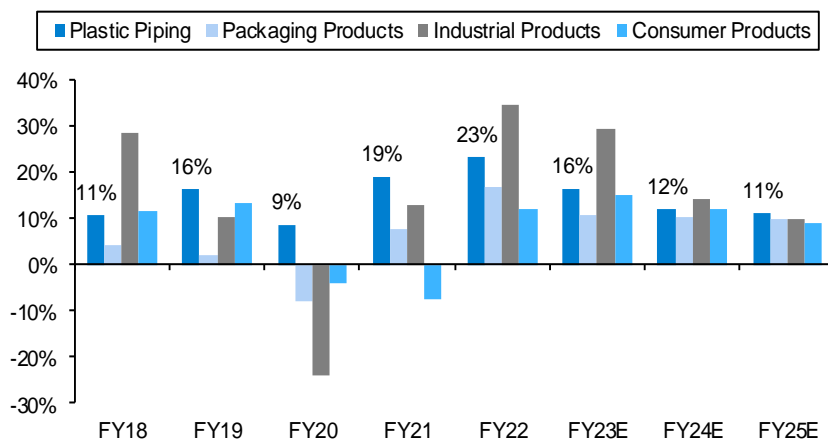
Source: Company, PL

Exhibit 129: SI's focus on pipe, rising revenue contribution



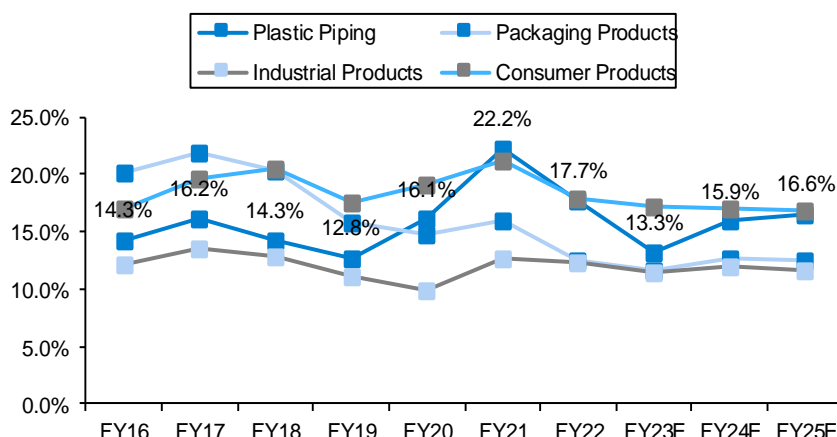
Source: Company, PL

Exhibit 130: Plastic Pipe Revenue growth to outperform other segments



Source: Company, PL

Exhibit 131: Segment margins – Sustained over long term

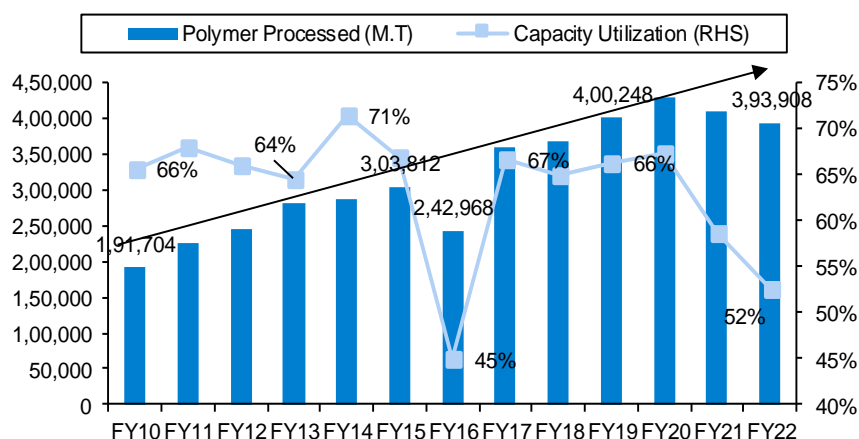


Source: Company, PL

Healthy expansion plan

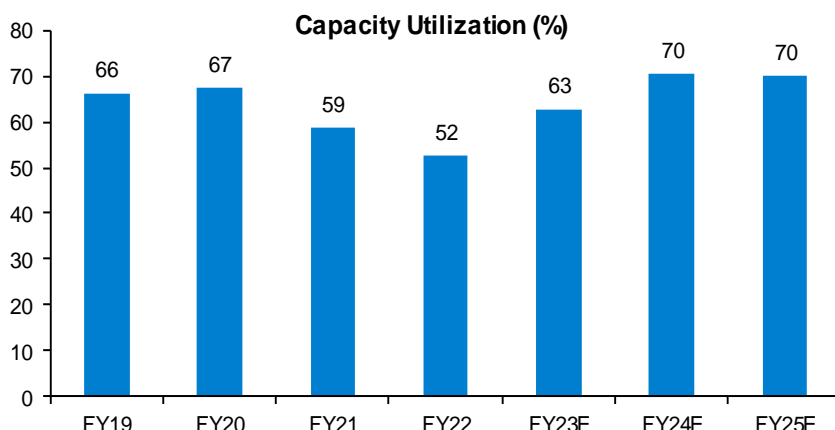
SI is continuously investing towards expansion across segments, in order to capture growth. The company invested ~Rs 21bn over FY16-22 for capacity expansion, resulting in 6% CAGR sales volume growth against industry of 3% in the same period. The company has continued its capex even during challenging period of pandemic (FY21&FY22) and invested around Rs6.7bn in two years. Further, the company has planned for the capex of Rs 7bn during FY23 for two new plants and several brown field expansions is progressing with little delay, which will be funded from internal accruals. We believe the company is well positioned with incremental capacity to capture any cyclical upturn in the coming years, which would improve its profitability and return ratio.

Exhibit 132: 2.6x capacity expansion; capacity utilisation at average of 63%.



Source: Company, PL

Exhibit 133: Capacity utilisation expected to improve

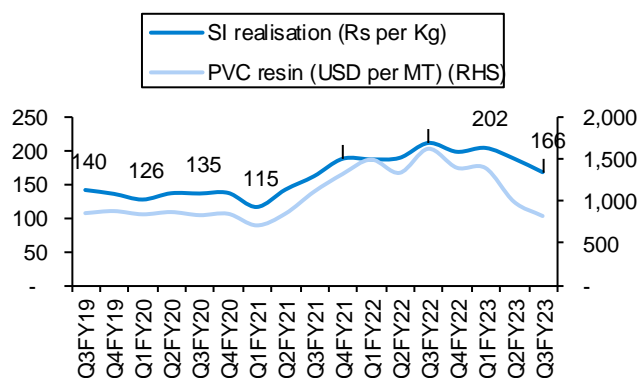


Source: Company, PL

Benefit with PVC resin price stabilisation

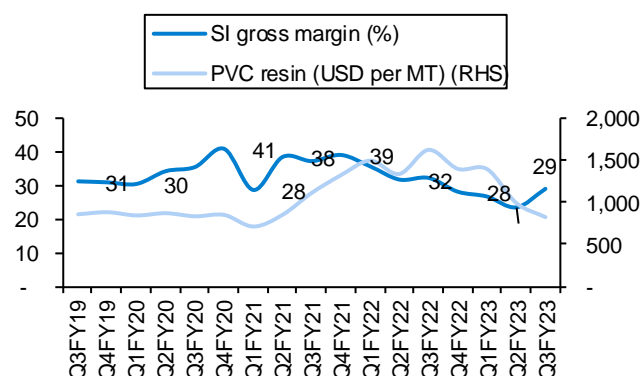
PVC resin is a predominant raw material for SI's plastic pipe business. During FY22, prices of PVC were literally on roller coaster mode. With correction in raw material prices, the company is expected to see improvement in volumes/EBITDA margin (11% CAGR/300bps over FY23-25E). The prices of different Polymers particularly polypropylene (PP), Low Denier Polyethylene (LDPE) and Poly Vinyl Chloride (PVC) have gone down between Rs.31 per kg to Rs.55 per kg, since beginning of the year till end of Q2FY23 i.e. reduction of 21% to 38%. Severest fall among them is in PVC resin where prices have fallen by Rs 66 per kg. i.e. 45% from beginning of the financial year till Nov-2022, while it recovered by Rs 15/Kg till Jan-2023. It looks that prices of PVC would remain range bound which augurs well for the company. SI also benefited with its cost efficient raw material procurement capability, which resulted in ~30%/16% of average Gross/EBITDA margin over last twelve years.

Exhibit 134: SI realisations corrected (-15%) with PVC resin prices (-40%YTD)



Source: Company, PL

Exhibit 135: GM expected to stabiles with PVC resin prices



Source: Company, PL

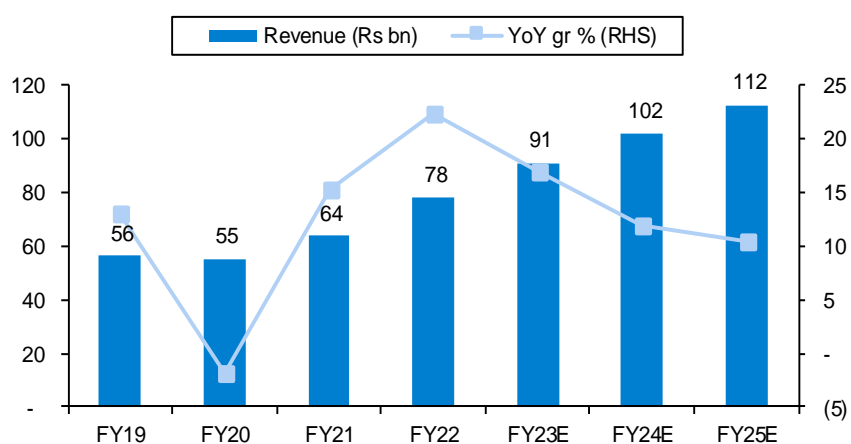
Financials and Valuations

Estimate CAGR of 11.2% in revenue over FY23-25E

We expect a revenue CAGR of 11.2% over FY23-25 with Plastic pipe (contributes ~65%) sales at 11.4% CAGR and Packaging/Industrial products likely at 10.0%/ 11.9% CAGR.

We expect a revenue 11.2% CAGR over FY23-25 led by 1) growing infrastructure/housing investments 2) government infrastructure spending 3) replacement of aging pipes 4) rising demand of plastic products across industry and 5) consolidation in the sector.

Exhibit 136: Revenue to clock 11.2% CAGR over FY23-25E

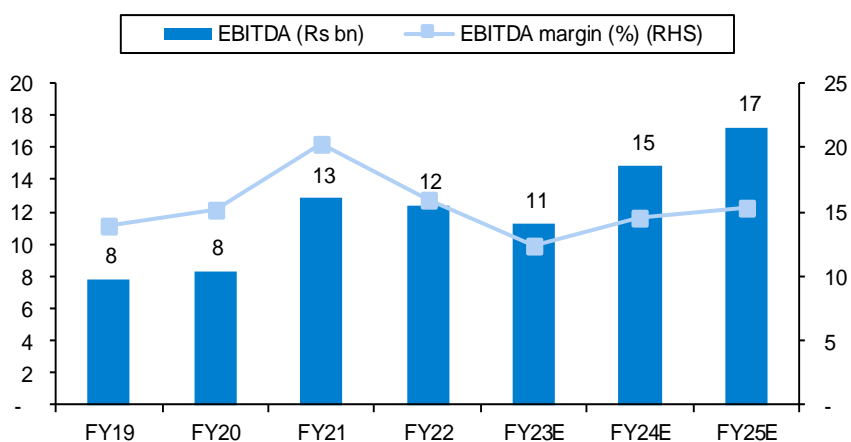


Source: Company, PL

EBITDA & PAT CAGR of 23.9% and 21.5% over FY23-25E

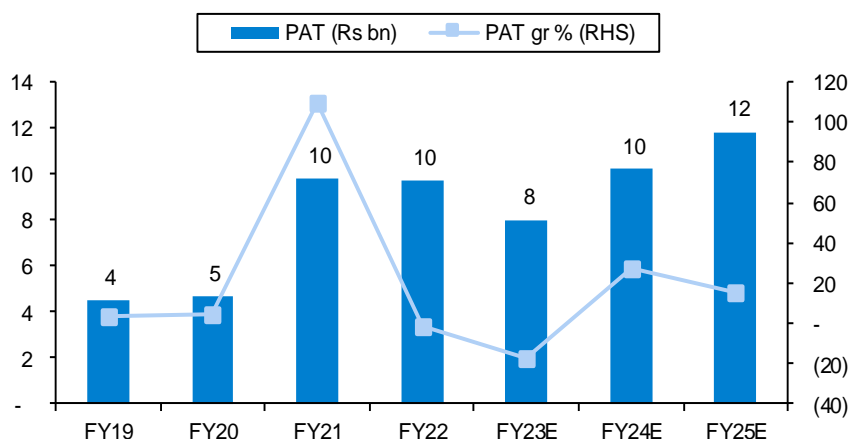
We estimate EBITDA CAGR of 23.9% over FY23-25, on account of expansion in gross margin with stabilization in RM prices. We expect EBITDA margins (after contraction in FY23) to improve over FY23-25 from 12.4%-15.4% with improvement in EBITDA per tonne from Rs 21/kg to Rs 26/Kg over FY23-25 in plastic pipe segment. PAT is estimated to report 21.5% CAGR over FY23-25, largely helped by sales growth and margins improvement.

Exhibit 137: EBITDA margin to improve, 300bps expansion over FY23-25



Source: Company, PL

Exhibit 138: Vol. growth & margin expansion led, 21.5% PAT CAGR FY23-25E



Source: Company, PL

Exhibit 139: Q3FY23 - Sales grew by 18.8% YoY, with sequential improvement in margin (+610bps QoQ)

Particulars (Rs mn)	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Revenue from Operations	18,438	20,846	13,421	19,285	19,451	25,571	22,060	20,866	23,107
YoY gr.	34.3%	45.7%	27.3%	40.3%	5.5%	22.7%	64.4%	8.2%	18.8%
Gross Profit	6,828	8,102	4,759	6,078	6,227	7,132	5,836	4,845	6,644
margin %	37.0%	38.9%	35.5%	31.5%	32.0%	27.9%	26.5%	23.2%	28.8%
Other Expenses	2,812	3,005	2,539	2,970	3,048	3,218	3,147	3,373	3,611
% of sales	15.3%	14.4%	18.9%	15.4%	15.7%	12.6%	14.3%	16.2%	15.6%
EBITDA	4,016	5,097	2,220	3,108	3,179	3,914	2,689	1,471	3,034
Margin	21.8%	24.5%	16.5%	16.1%	16.3%	15.3%	12.2%	7.1%	13.1%
YoY gr.	81.8%	86.4%	89.6%	21.5%	-20.8%	-23.2%	21.1%	-52.7%	-4.6%
Other Income	37	37	43	41	29	86	46	55	83
Depreciation	549	548	561	571	575	588	617	649	648
Interest	22	5	21	7	5	19	16	12	12
PBT	3,481	4,581	1,681	2,571	2,629	3,393	2,102	866	2,457
Tax	886	781	430	675	678	851	543	231	633
ETR	25.5%	17.0%	25.6%	26.2%	25.8%	25.1%	25.8%	26.7%	25.8%
Profit before JV/Associates/Minority Interest	2,594.90	3,800.40	1,251.40	1,896.00	1,950.70	2,542.50	1,558.50	634.60	1,824.50
Share of JV/Associates	528	703	450	391	507	696	580	186	276
Non-controlling Interest	-	-	-	-	-	-	-	-	-
Adj PAT	3,123	4,504	1,702	2,287	2,457	3,239	2,139	820	2,100
Adj. PAT margin %	16.9%	21.6%	12.7%	11.9%	12.6%	12.7%	9.7%	3.9%	9.1%
YoY gr.	153.1%	284.0%	319.8%	30.7%	-21.3%	-28.1%	25.7%	-64.1%	-14.5%
Exceptional item	-	-	-	-	-	-	-	-	-
Reported PAT	3,123	4,504	1,702	2,287	2,457	3,239	2,139	820	2,100

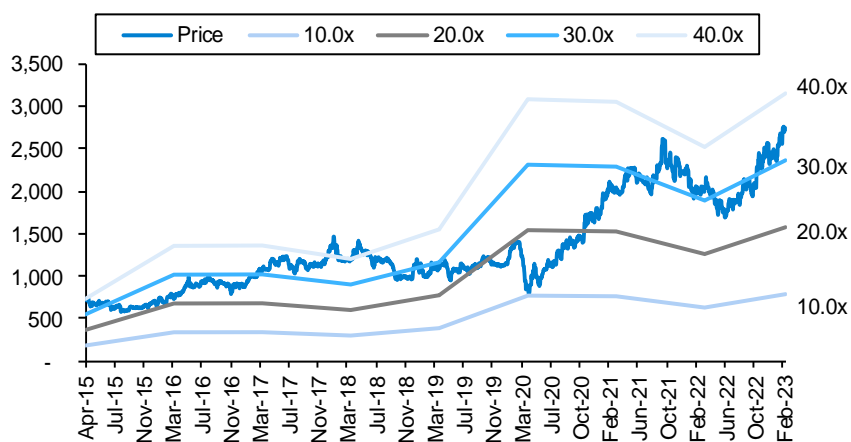
Source: Company, PL

Valuations

SI has generated industry-leading performance in past years in terms of earnings growth (CAGR of 16% over FY10-22), impressive return ratios (~29% average RoCE of last ten years) and dividend pay-outs in conjunction with maintaining strength of balance sheet (debt-free and controlled working capital cycle of 45days) and efficient governance. SI has strong operating and free cash flows to fund its capex from internal accruals, which gives great comfort.

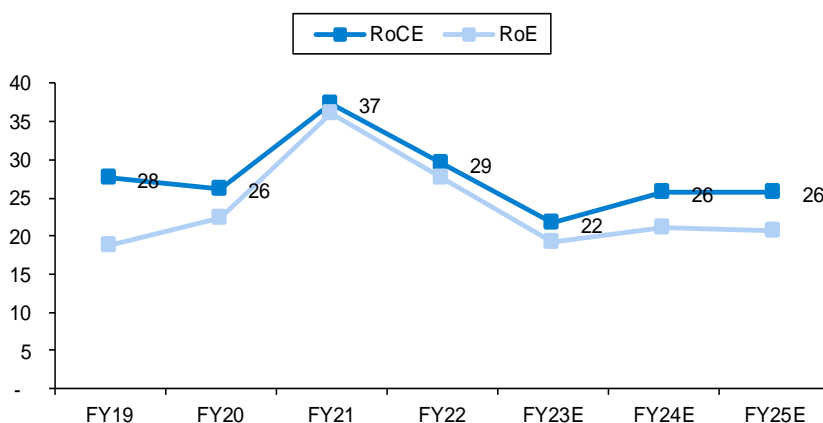
We believe in SI's structural growth story given 1) growth revival (FY23-25E EPS CAGR of 21.5%) and 2) pipes segment reaping benefits of industry consolidation. We initiate 'BUY' rating and target price of Rs3,170 based on 34x FY25E EPS, at 15% premium to its long-term average one-year forward valuation, a 16% upside.

Exhibit 140: SI is currently trading at 34x 1 year forward earnings



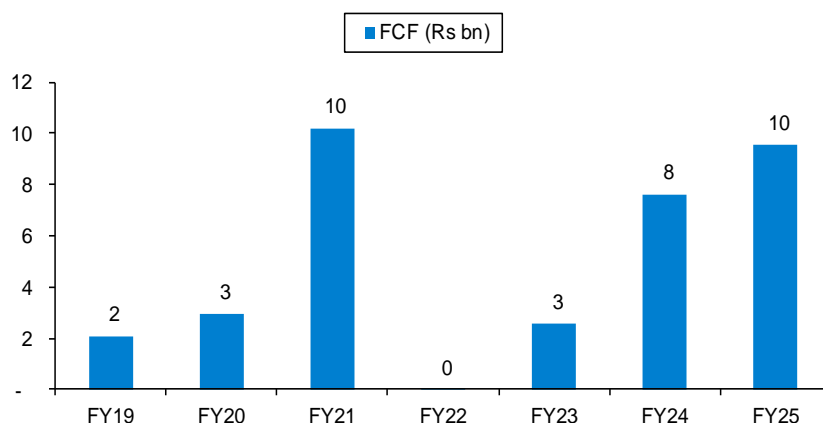
Source: Company, PL

Exhibit 141: Healthy return ratios continued



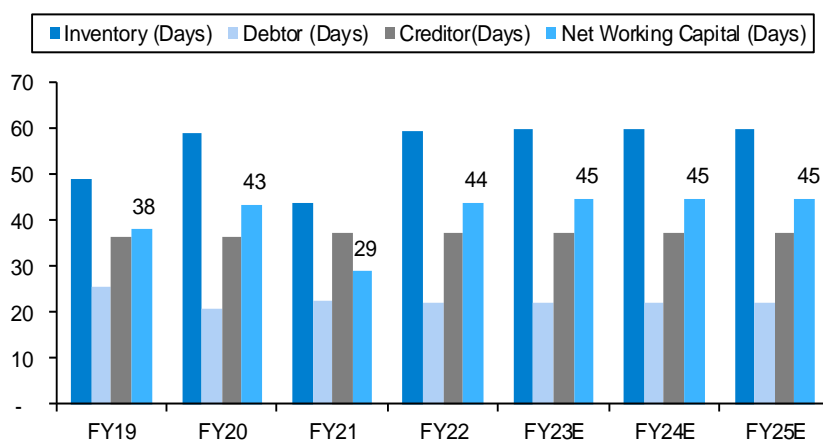
Source: Company, PL

Exhibit 142: Healthy FCF generation despite capex intensity



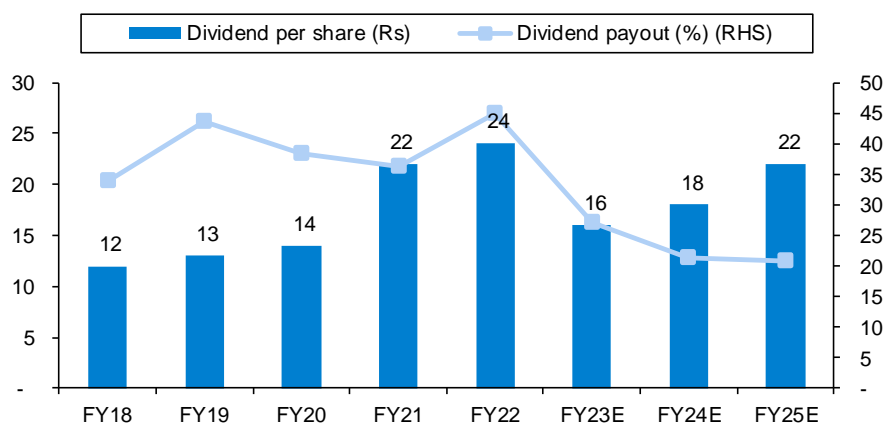
Source: Company, PL

Exhibit 143: Controlled working capital



Source: Company, PL

Exhibit 144: Consistent dividend distribution



Source: Company, PL

Key Risks

- **Fluctuation in raw material prices:** The stabilization in raw material prices leads to volume growth and margins expansion. The fluctuation in RM prices restrict distributors and customers from buying of plastic products.
- **Invest continuously in capacity enhancement to sustain growth.** Any delay in expansion plans may impact future prospects.
- **Intense competition in pipes and fittings industry** primarily in commoditized products segment is characterized by low product differentiation.
- **Any slowdown in GDP growth of the country might affect SI's topline.** In India plastic industry has been growing in range of 1.8x-2x GDP growth rate.

Board of Director & KMP

Exhibit 145: Board of Directors

• B L Taparia, Chairman
• M P Taparia, Managing Director
• S J Taparia, Executive Director
• V K Taparia, Executive Director
• R Kannan
• Rajeev M Pandia
• Sarthak Behuria
• Ms. Ameeta Parpia

Source: Company, PL

Exhibit 146: Management Team

• A K Tripathi, Exe. Vice President (Plastic Piping System)
• V L Malu, Exe. Vice President (Industrial Components)
• P C Somani, Chief Financial Officer
• Saurov Ghosh - Chief human resources officer
• A K Ghosh, Exe. Vice President (Protective Packaging)
• S K Patnaik , COO (Protective Packaging Products)
• Pradeep Kamat, Vice President (Composite Cylinders)
• Sanjeev Jain , Vice President (Furniture)
• Siddharth Roongta, Vice President (Cross Laminated Films)
• R J Saboo , Vice President (Corporate Affairs) & Company Secretary
• Parag Prabhu, Vice President (Finance)
• Vivek Taparia, Vice President (Flexible Pkg. Film)
• Sanjay Mishra, Associate Vice President (MHD)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	77,728	90,866	1,01,741	1,12,327
YoY gr. (%)	22.3	16.9	12.0	10.4
Cost of Goods Sold	53,532	65,760	71,321	77,618
Gross Profit	24,197	25,106	30,421	34,709
Margin (%)	31.1	27.6	29.9	30.9
Employee Cost	5,396	5,997	6,674	7,110
Other Expenses	2,965	3,589	3,918	4,605
EBITDA	12,421	11,249	14,843	17,265
YoY gr. (%)	(3.3)	(9.4)	31.9	16.3
Margin (%)	16.0	12.4	14.6	15.4
Depreciation and Amortization	2,295	2,538	2,830	3,141
EBIT	10,126	8,711	12,013	14,124
Margin (%)	13.0	9.6	11.8	12.6
Net Interest	52	52	52	52
Other Income	200	260	400	450
Profit Before Tax	10,274	8,920	12,362	14,522
Margin (%)	13.2	9.8	12.2	12.9
Total Tax	2,633	2,322	3,426	3,970
Effective tax rate (%)	25.6	26.0	27.7	27.3
Profit after tax	7,641	6,598	8,936	10,552
Minority interest	-	-	-	-
Share Profit from Associate	2,044	1,400	1,250	1,250
Adjusted PAT	9,685	7,998	10,186	11,802
YoY gr. (%)	(1.0)	(17.4)	27.4	15.9
Margin (%)	12.5	8.8	10.0	10.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9,685	7,998	10,186	11,802
YoY gr. (%)	(1.0)	(17.4)	27.4	15.9
Margin (%)	12.5	8.8	10.0	10.5
Other Comprehensive Income	(12)	-	-	-
Total Comprehensive Income	9,673	7,998	10,186	11,802
Equity Shares O/s (m)	127	127	127	127
EPS (Rs)	76.2	62.9	80.2	92.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	35,746	41,746	45,746	49,746
Tangibles	34,882	40,882	44,882	48,882
Intangibles	864	864	864	864
Acc: Dep / Amortization	18,061	20,599	23,429	26,570
Tangibles	18,061	20,599	23,429	26,570
Intangibles	-	-	-	-
Net fixed assets	17,685	21,147	22,316	23,175
Tangibles	16,821	20,283	21,453	22,312
Intangibles	864	864	864	864
Capital Work In Progress	1,546	546	546	546
Goodwill	-	-	-	-
Non-Current Investments	4,938	4,938	4,938	4,938
Net Deferred tax assets	(904)	(904)	(904)	(904)
Other Non-Current Assets	1,037	1,037	1,037	1,037
Current Assets				
Investments	-	-	-	-
Inventories	12,602	14,937	16,725	18,465
Trade receivables	4,668	5,457	6,110	6,746
Cash & Bank Balance	5,264	7,334	13,021	20,156
Other Current Assets	2,219	2,219	2,219	2,219
Total Assets	49,959	57,614	66,913	77,282
Equity				
Equity Share Capital	254	254	254	254
Other Equity	38,190	44,154	52,053	61,060
Total Network	38,444	44,409	52,307	61,314
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	244	244	244	244
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,940	9,282	10,393	11,474
Other current liabilities	2,064	2,412	2,701	2,982
Total Equity & Liabilities	49,959	57,614	66,913	77,282

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	12,318	10,320	13,612	15,772
Add. Depreciation	2,295	2,538	2,830	3,141
Add. Interest	52	52	52	52
Less Financial Other Income	200	260	400	450
Add. Other	(2,155)	(260)	(400)	(450)
Op. profit before WC changes	12,510	12,649	16,093	18,515
Net Changes-WC	(4,939)	(2,779)	(1,041)	(1,013)
Direct tax	(2,868)	(2,322)	(3,426)	(3,970)
Net cash from Op. activities	4,703	7,548	11,626	13,531
Capital expenditures	(4,699)	(5,000)	(4,000)	(4,000)
Interest / Dividend Income	9	260	400	450
Others	655	-	-	-
Net Cash from Invt. activities	(4,035)	(4,740)	(3,600)	(3,550)
Issue of share cap. / premium	-	-	-	-
Debt changes	(10)	-	-	-
Dividend paid	(2,922)	2,033	2,287	2,795
Interest paid	(10)	52	52	52
Others	(161)	-	-	-
Net cash from Fin. activities	(3,102)	2,084	2,338	2,847
Net change in cash	(2,434)	4,893	10,364	12,828
Free Cash Flow	4	2,548	7,626	9,531

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	76.2	62.9	80.2	92.9
CEPS	94.3	82.9	102.4	117.6
BVPS	302.6	349.5	411.7	482.6
FCF	0.0	20.1	60.0	75.0
DPS	24.0	16.0	18.0	22.0
Return Ratio(%)				
RoCE	29.4	21.7	25.7	25.7
ROIC	25.3	18.9	24.6	28.0
RoE	27.6	19.3	21.1	20.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	44	45	45	45
Valuation(x)				
PER	36.2	43.9	34.4	29.7
P/B	9.1	7.9	6.7	5.7
P/CEPS	29.3	33.3	27.0	23.5
EV/EBITDA	27.8	30.5	22.8	19.2
EV/Sales	4.4	3.8	3.3	2.9
Dividend Yield (%)	0.9	0.6	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	25,571	22,060	20,866	23,107
YoY gr. (%)	22.7	64.4	8.2	18.8
Raw Material Expenses	18,439	16,224	16,022	16,463
Gross Profit	7,132	5,836	4,845	6,644
Margin (%)	27.9	26.5	23.2	28.8
EBITDA	3,914	2,689	1,471	3,034
YoY gr. (%)	(23.2)	21.1	(52.7)	(4.6)
Margin (%)	15.3	12.2	7.1	13.1
Depreciation / Depletion	588	617	649	648
EBIT	3,326	2,072	823	2,386
Margin (%)	13.0	9.4	3.9	10.3
Net Interest	19	16	12	12
Other Income	86	46	55	83
Profit before Tax	3,393	2,102	866	2,457
Margin (%)	13.3	9.5	4.2	10.6
Total Tax	851	543	231	633
Effective tax rate (%)	25.1	25.8	26.7	25.8
Profit after Tax	2,543	1,559	635	1,825
Minority interest	-	-	-	-
Share Profit from Associates	696	580	186	276
Adjusted PAT	3,239	2,139	820	2,100
YoY gr. (%)	(28.1)	25.7	(64.1)	(14.5)
Margin (%)	12.7	9.7	3.9	9.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,239	2,139	820	2,100
YoY gr. (%)	(28.1)	25.7	(64.1)	(14.5)
Margin (%)	12.7	9.7	3.9	9.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,239	2,139	820	2,100
Avg. Shares O/s (m)	127	127	127	127
EPS (Rs)	25.5	16.8	6.5	16.5

Source: Company Data, PL Research

Notes

Notes

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Electricals	Accumulate	1,286	1,154
2	Crompton Greaves Consumer Electricals	BUY	406	305
3	Havells India	BUY	1,447	1,205
4	KEI Industries	Hold	1,572	1,508
5	Polycab India	Hold	2,750	2,761
6	Voltas	BUY	980	850

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I Mr. Praveen Sahay- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Praveen Sahay- MBA Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com