

Prince Pipes & Fittings

Operationally weak 2QFY25 likely to revive in 2H

RESULT UPDATE	
Sector: Plastic Pipes	Rating: HOLD
CMP: Rs 470	Target Price: Rs 501

Stock Info	
Sensex/Nifty	79,471/24,164
Bloomberg	PRINCIPI IN
Equity shares (mn)	110.6
52-wk High/Low	760/472
Face value	Rs 10
M-Cap	Rs 52bn/ USD 625mn
3-m Avg turnover	USD 1.4mn

Financial Snapshot (Rs mn)			
Y/E Mar	FY25E	FY26E	FY27E
Net sales	27,200	31,222	36,321
EBITDA	2,768	3,505	4,430
OPM (%)	10.2	11.2	12.2
PAT (adj.)	1,298	1,805	2,517
EPS (adj.) (Rs)	12	16	23
PE (x)	40.0	28.8	20.6
P/B (x)	3.1	2.9	2.6
EV/EBITDA (x)	18.7	14.5	11.1
RoE (%)	7.9	10.0	12.4
RoCE (%)	10.5	13.4	16.8
Net-D/E (x)	(0.0)	(0.1)	(0.1)

Shareholding Pattern (%)			
	Sep'24	Jun'24	Mar'24
Promoter	60.9	60.9	60.9
- Pledged			
FII	7.3	6.4	5.2
DII	17.5	18.4	18.5
Others	14.3	14.2	15.4

Stock Performance (1-year)

Prince Pipes' (PRINCIPI) weak operating results in 2Q (pipe volume up 4% YoY; revenue/EBITDA down 5%/51% YoY, EBITDA margin 7.3%) was driven by volatile and softer PVC prices. Volume growth was primarily led by growth in plumbing and SWR segments. A fall in PVC prices over the months of July and August led to de-stocking by channel partners, which impacted volume and profitability. Despite the fall in PVC prices, realizations remained stable QoQ on account of better sales mix. Inventory loss stood at ~Rs 120-150mn (2-2.5% of revenue). It also offered special incentives to dealers to gain market share. With price volatility easing out, stocking cycles have been resuming. After 9% YoY growth in pipe volume in 1H, management expects a better performance in 2H and conservatively aims for 8-10% volume growth in FY25. In Bathware, it launched its first retail showrooms in Hisar and New Delhi. With strategic marketing efforts, it aims to establish *Aquel by Prince* as a pan-India brand by end-FY25. Bihar greenfield plant of 50kt capacity is on track to start production in 4QFY25 and will boost supply in the fast-growing eastern market. After a weak 2Q, we cut earnings estimates by 7-29% owing to lower margins expectations. We now estimate a low 12%/13%/11% CAGR in revenue/EBITDA/PAT over FY24-27E, expecting pipe volume CAGR of 12% and EBITDA margin crossing 12% in FY27E. On a low RoCE (~17% in FY27E), we maintain HOLD rating with a revised TP of Rs 501 (22x FY27E P/E, earlier Rs 615). Strong volume, margins and RoCE are keys for valuation re-rating. ([concall KTAs](#))

2QFY25 – weak operating performance: Revenue fell 5% YoY, driven by ~10% YoY dip in pipe realization and a low 4% YoY growth in volume. A 700bps YoY contraction in EBITDA margin (7.3%) was led by a lower gross margin (down 429bps at 27%). Net WC-cycle was broadly stable at 93 days; a sharp reduction in debtor days (55) was negated by rise in inventory days (88).

Pipes volume grew 4% YoY; lower prices hurt revenue and margins in 2Q: Volume growth of 4% YoY in 2Q was primarily led by growth in plumbing and SWR segments. A fall in PVC prices over the months of July and August led to de-stocking by channel partners, which impacted volume and profitability. Despite the fall in PVC prices, realizations remained stable QoQ on account of better sales mix. Inventory loss stood at ~Rs 120-150mn (2-2.5% of revenue). It also offered special incentives to dealers to gain market share. With price volatility easing out, stocking cycles have been resuming. After 9% YoY growth in pipe volume in 1H, management expects a better performance in 2H and conservatively aims for 8-10% volume growth in FY25. TAM for PRINCIPI has expanded to ~Rs. 600bn across pipes, water tanks, bathware.

Aims *Aquel by Prince* to establish as a pan-India brand by end-FY25: Bathware reported ~Rs 70mn revenue and Rs 40mn loss in 2Q. After expansion in the key Tier-2 and 3 markets of West and North India; the company plans to enter East and South market in 2H. It launched first retail showrooms in Hisar and New Delhi. With strategic marketing efforts, it aims to establish *Aquel by Prince* as a pan-India brand by end-FY25. To boost the segment faster, PRINCIPI agreed to acquire *Aquel's* plant located in Bhuj, Gujarat for Rs 550mn and aims Rs 1.2bn revenue in few years.

Bihar greenfield plant capex on track to start production in 4QFY25: Bihar plant is on track to start production in Jan'25. In phase-1, a ~50kt capacity will be added for pipes and water tanks. More products will be added subsequently. Bihar plant will boost supply in the fast-growing eastern market. FY25 capex is planned at Rs 3.5bn.

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Concall key highlights (2QFY25)

Business development & Outlook

- Volume growth of 4% YoY in 2Q was primarily led by growth in Plumbing and SWR segments.
- Inventory loss in 2Q of ~Rs 120-150mn (2-2.5% of revenue)
- Also offered special incentives to dealers to gain market-share
- A fall in PVC prices over the months of July and August led to de-stocking by channel partners, which impacted volume and profitability.
- Despite the fall in PVC prices, realizations remained stable QoQ on account of better sales mix.
- With price volatility easing out, stocking cycles have been resuming with a likely healthy volume growth in 2H.
- Thus, for FY25, it conservatively expects 8-10% pipe volume growth after a 9% YoY rise in 1H.
- Bihar greenfield plant's capex for ~50kt capacity on track to start production in 4QFY25
- Bathware - launched its first retail showrooms in Hisar and New Delhi.
- With strategic marketing efforts, it aims to establish Aquel by Prince as a pan-India brand by end-FY25.
- Capex – Rs 3.5bn in FY25E including Bihar greenfield plant
- A&P spend stayed high at ~2.5% of revenue.

2QFY25 – weak operating performance

- Revenue fell 5% YoY, driven by ~10% YoY dip in pipe realization and a low 4% YoY growth in volume
- A 700bps YoY contraction in EBITDA margin (7.3%) was led by a lower gross margin (down 429bps at 27%).
- Inventory loss of ~Rs 120-150mn (2-2.5% of revenue)
- Net WC-cycle was broadly stable at 93 days; a sharp reduction in debtor days (55) was negated by rise in inventory days (88).

Exhibit 1: Prince Pipes & Fittings – quarterly performance

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY25	1HFY24	YoY (%)
P&L										
Revenue	6,565	6,186	7,401	6,045	6,221	(5)	3	12,265	12,100	1
Raw material costs	4,511	4,316	5,224	4,370	4,542	1	4	8,911	8,653	3
Employee costs	405	373	379	382	446	10	17	828	725	14
Other expenses	707	741	876	710	776	10	9	1,486	1,327	12
EBITDA	942	757	923	583	457	(51)	(22)	1,040	1,395	(25)
Depreciation	225	229	239	257	276	22	7	533	443	20
Finance costs	7	27	14	14	16	137	13	31	24	27
Other income	40	30	53	26	39	(0)	53	65	78	(16)
Exceptional gain/ (loss)	179	-	-	-	-			-	179	
PBT	928	530	723	337	204	(78)	(39)	541	1,184	(54)
Tax	222	154	177	90	57	(74)	(36)	147	281	(48)
PAT	706	376	546	247	147	(79)	(40)	394	903	(56)
EPS (Rs)	6.4	3.4	4.9	2.2	1.3			3.6	8.2	(56)
As % Revenue						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	31.3	30.2	29.4	27.7	27.0	(429)	(72)	27.3	28.5	(114)
Employee costs	6.2	6.0	5.1	6.3	7.2	101	86	6.7	6.0	76
Other expenses	10.8	12.0	11.8	11.8	12.5	170	72	12.1	11.0	115
EBITDA margin	14.3	12.2	12.5	9.6	7.3	(700)	(230)	8.5	11.5	(305)
Depreciation	3.4	3.7	3.2	4.3	4.4	100	17	4.3	3.7	68
Finance costs	0.1	0.4	0.2	0.2	0.3	16	2	0.3	0.2	5
Other income	0.6	0.5	0.7	0.4	0.6	3	21	0.5	0.6	(11)
PBT	11.4	8.6	9.8	5.6	3.3	(813)	(229)	4.4	8.3	(389)
Effective tax rate	23.9	29.1	24.4	26.7	28.0	410	131	27.2	23.8	343
PAT	10.8	6.1	7.4	4.1	2.4	(840)	(172)	3.2	7.5	(425)
Pipes						YoY (%)	QoQ (%)			YoY (%)
Revenue	6,565	6,126	7,361	5,995	6,151	(6)	3	12,145	12,100	0
Volume (mn t)	41,529	42,665	51,444	42,180	43,301	4	3	85,481	78,684	9
Realisation/kg (Rs)	158	144	143	142	142	(10)	(0)	142	154	(8)
EBITDA/kg (Rs)	22.7	18.0	18.2	14.1	10.8	(52)	(23)	12	18	(31)
Bathware Revenue	0	60	40	50	70		40	120		

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue growth - quarterly trend

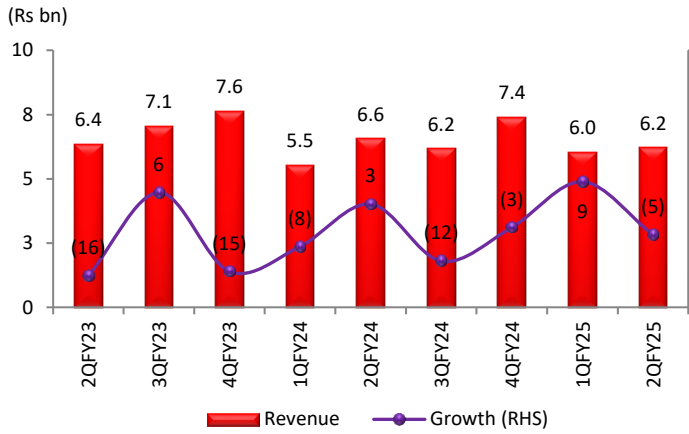


Exhibit 3: Volume growth - quarterly trend

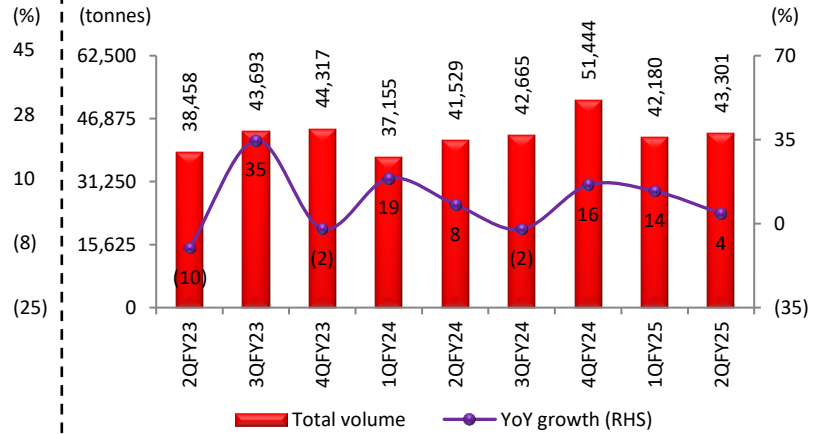


Exhibit 4: Pipes realisation - quarterly trend

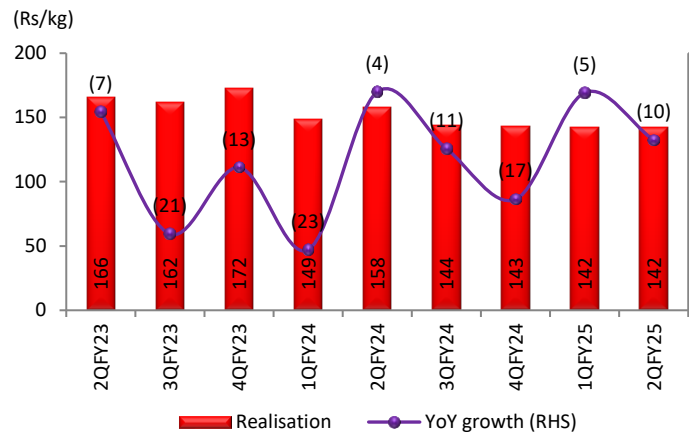


Exhibit 5: EBITDA per kg - quarterly trend

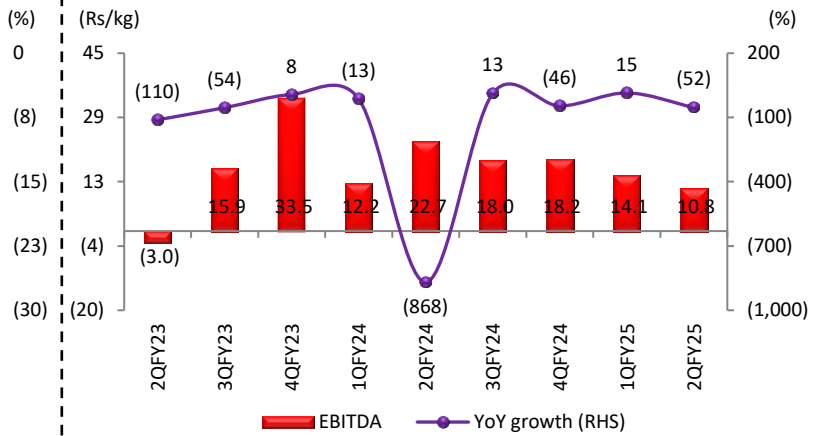


Exhibit 6: Expenses as percentage of revenue - quarterly trend

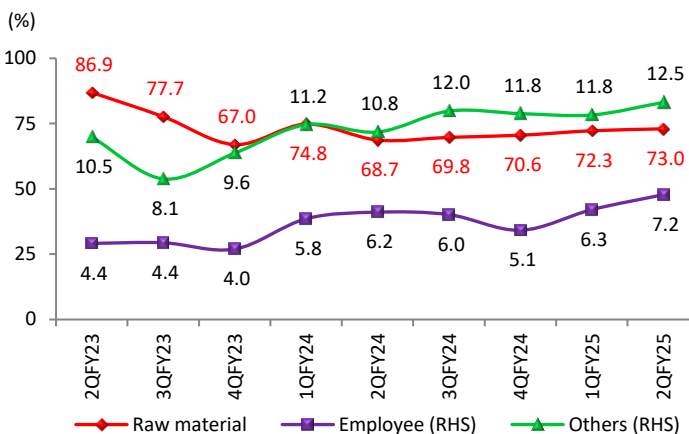
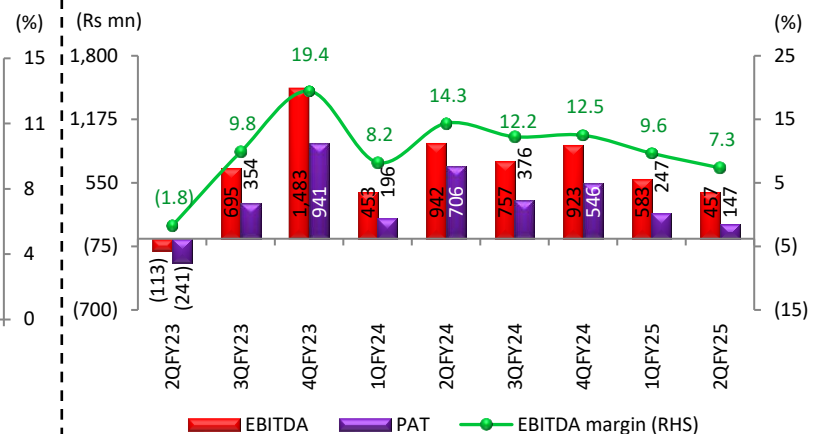


Exhibit 7: EBITDA, PAT and margin trend



Source: Company, Systematix Institutional Research

Exhibit 8: Revenue - annual trend

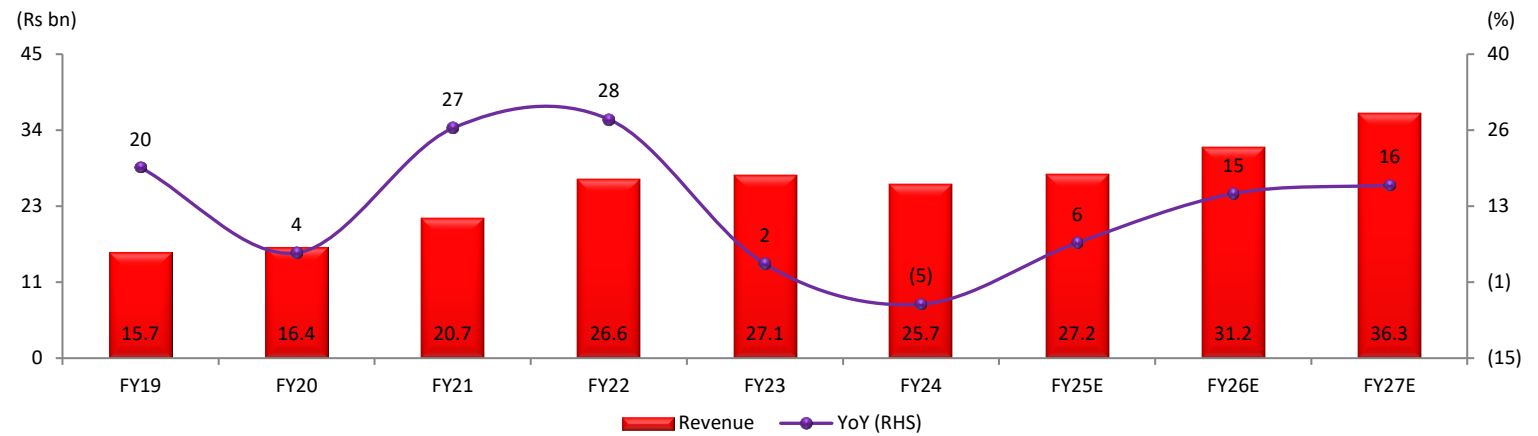


Exhibit 9: EBITDA margin and PAT margin - annual trend

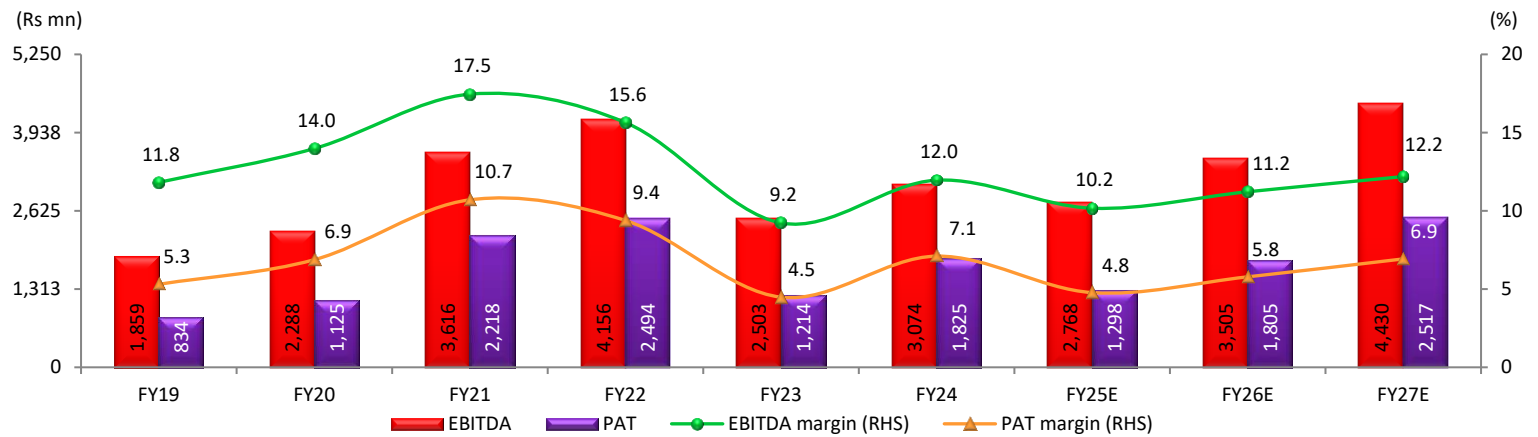
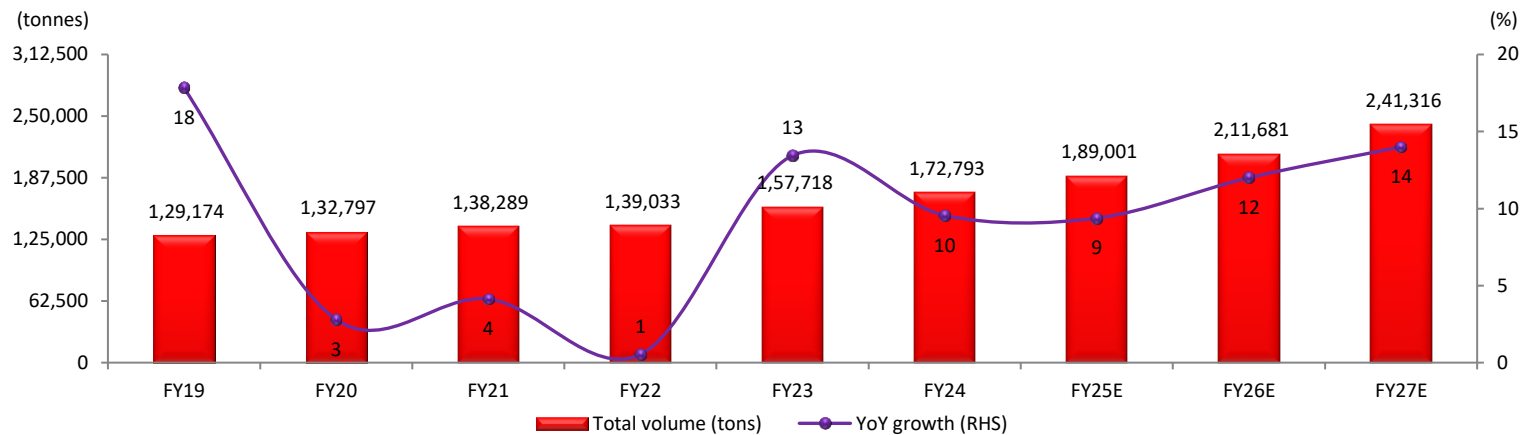


Exhibit 10: Volume growth - annual trend



Source: Company, Systematix Institutional Research

Exhibit 11: Pipes realisation - annual trend

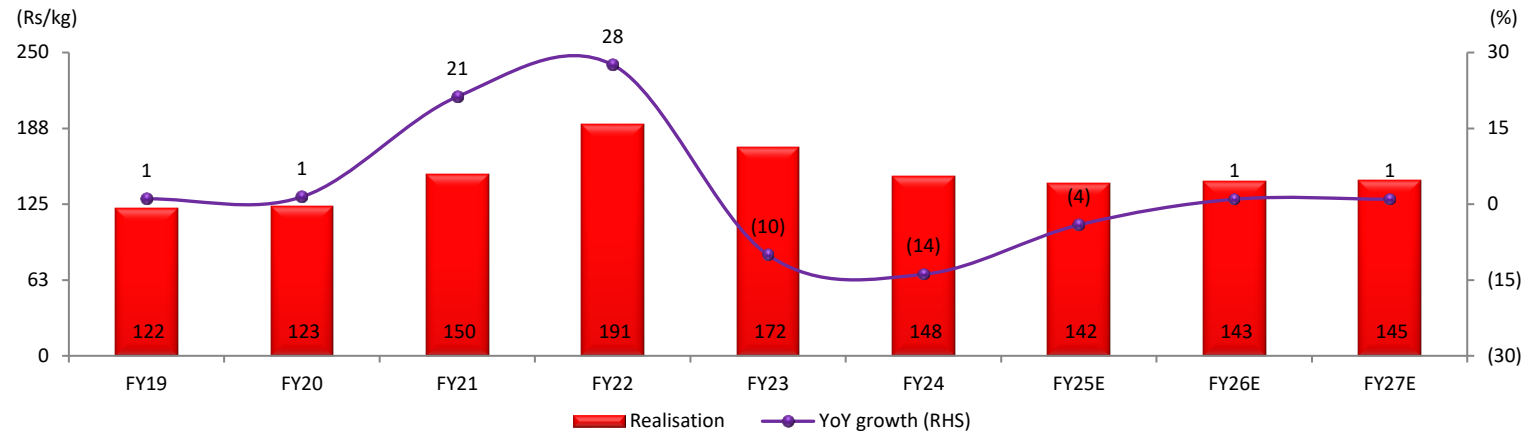
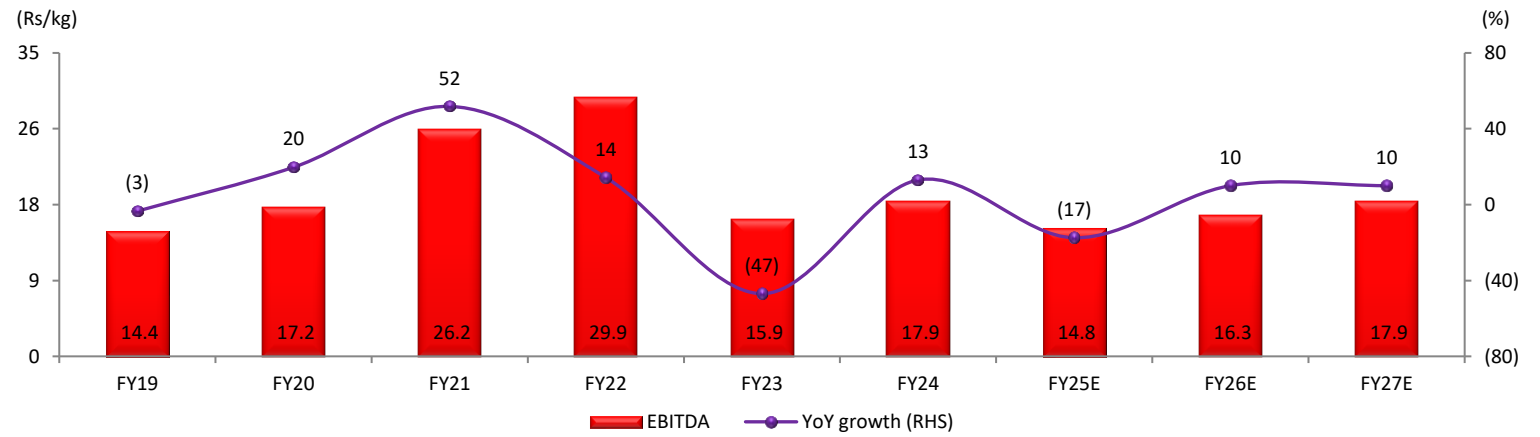


Exhibit 12: EBITDA per kg - annual trend



Source: Company, Systematix Institutional Research

Outlook and valuation

PRINCEPIP is one of India's largest integrated piping solutions and multi polymer (CPVC, UPVC, HDPE, PPR) manufacturer. In August 2020, the company tied up with Lubrizol (inventors and largest manufacturers of CPVC compounds worldwide) and launched Prince *FlowGuard Plus* CPVC plumbing systems. The company is expanding its network of 1,500+ distributors. It has 7 state-of-the-art manufacturing units located across India, these being in Haridwar (Uttarakhand), Athal (Dadra and Nagar Haveli), Dadra (Dadra and Nagar Haveli), Kolhapur (Maharashtra), Chennai (Tamil Nadu), Jobner (Rajasthan) and Sangareddy (Telangana). It will have plants across regions after Bihar plant is operational in 4QFY25.

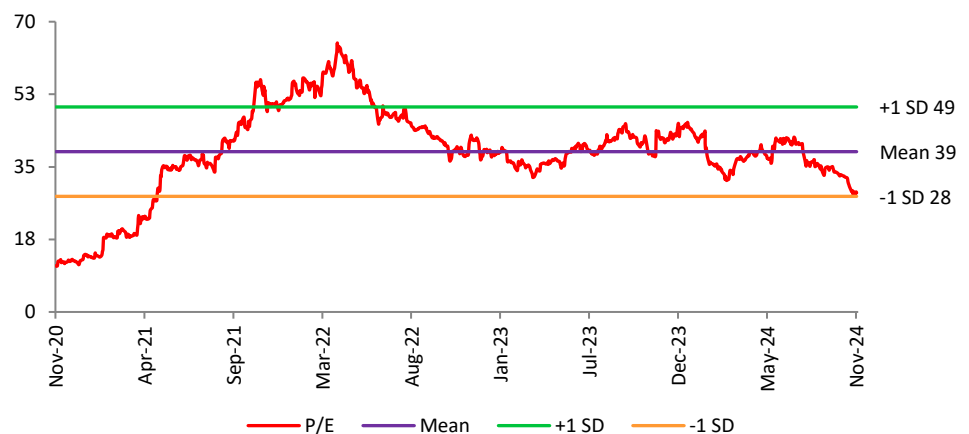
After a weak 2Q, we cut earnings estimates by 7-29% owing to lower margins expectations. We now estimate a low 12%/13%/11% CAGR in revenue/EBITDA/PAT over FY24-27E, expecting pipe volume CAGR of 12% and EBITDA margin crossing 12% in FY27E. On a low RoCE (~17% in FY27E), we maintain HOLD rating with a revised TP of Rs 501 (22x FY27E P/E, earlier Rs 615). Strong volume, margins and RoCE are keys for valuation re-rating.

Exhibit 13: Change in estimates

(Rs mn)	Old estimates			New estimates			% Var		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Revenue	26,853	30,797	35,793	27,200	31,222	36,321	1	1	1
EBITDA	3,442	3,978	4,659	2,768	3,505	4,430	(20)	(12)	(5)
EBITDA margin (%)	12.8	12.9	13.0	10.2	11.2	12.2			
PAT	1,832	2,189	2,720	1,298	1,805	2,517	(29)	(18)	(7)
EPS	16.6	19.8	24.6	11.7	16.3	22.8			

Source: Systematix Institutional Research

Exhibit 14: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Risks

- High and volatile raw material prices may impact demand and profitability
- Intensifying competition may suppress demand and margins

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenues (Rs mn)	27,109	25,687	27,200	31,222	36,321
<i>Growth (%)</i>	2.0	(5.2)	5.9	14.8	16.3
Direct costs	20,922	18,193	19,515	22,073	25,325
<i>Gross Margin (%)</i>	22.8	29.2	28.3	29.3	30.3
SG&A	3,684	4,420	4,917	5,644	6,566
EBITDA	2,503	3,074	2,768	3,505	4,430
<i>EBITDA margins (%)</i>	9.2	12.0	10.2	11.2	12.2
- Depreciation	830	912	1,099	1,213	1,288
Other income	86	161	150	219	327
Interest Exp	110	65	64	88	90
PBT	1,648	2,438	1,755	2,423	3,378
<i>Effective tax rate (%)</i>	26.3	25.1	26.0	25.5	25.5
+ Associates/(Minorities)	-	-	-	-	-
Net Income	1,214	1,825	1,298	1,805	2,517
Adjusted income	1,214	1,825	1,298	1,805	2,517
WANS	111	111	111	111	111
FDEPS (Rs/share)	11.0	16.5	11.7	16.3	22.8
<i>FDEPS growth (%)</i>	(51.3)	50.3	(28.9)	39.1	39.4

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
EBIT (incl. other income)	1,698	2,301	1,668	2,292	3,141
+ Non-cash items	830	912	1,099	1,213	1,288
OCF before WC changes	2,528	3,212	2,768	3,505	4,430
- Incr./ (decr.) in WC	(1,321)	2,599	(10)	636	805
Others including taxes	248	284	556	717	961
Operating cash-flow	3,602	329	2,222	2,152	2,663
- Capex (tangible + Intangible)	938	1,908	2,000	1,000	1,000
Free cash-flow	2,663	(1,579)	222	1,152	1,663
Acquisitions					
- Dividend	221	-	221	276	332
+ Equity raised	-	-	-	-	-
+ Debt raised	(919)	560	40	40	40
- Fin Investments	531	(586)	-	-	-
- Misc. Items (CFI + CFF)	94	20	(106)	(150)	(256)
Net cash-flow	899	(453)	146	1,066	1,628

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,106	1,106	1,106	1,106	1,106
Net worth	13,640	15,444	16,521	18,050	20,234
Total debt (incl. Pref)	581	1,144	1,184	1,224	1,264
Minority interest	-	-	-	-	-
DT Liability/(Asset)	137	191	211	231	251
Capital Employed	14,358	16,779	17,916	19,505	21,749
Net tangible assets	6,795	7,888	8,789	8,576	8,288
Net Intangible assets	56	88	88	88	88
Goodwill	-	-	-	-	-
CWIP	190	353	353	353	353
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	920	382	382	382	382
Current Assets	10,103	11,744	12,126	13,396	14,941
Cash	1,223	777	923	1,989	3,617
Current Liabilities	4,930	4,453	4,745	5,280	5,920
Working capital	5,173	7,291	7,381	8,116	9,022
Capital Deployed	14,358	16,779	17,916	19,505	21,749
Contingent Liabilities	121	30	-	-	-

Ratios @ Rs 470

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	42.8	28.5	40.0	28.8	20.6
EV/EBITDA (x)	20.1	16.9	18.7	14.5	11.1
EV/sales (x)	1.9	2.0	1.9	1.6	1.4
P/B (x)	3.8	3.4	3.1	2.9	2.6
RoE (%)	8.9	11.8	7.9	10.0	12.4
RoCE (%)	12.3	14.9	10.5	13.4	16.8
RoIC (%)	13.3	16.2	10.5	13.8	18.2
DPS (Rs per share)	-	1.0	2.0	2.5	3.0
Dividend yield (%)	-	0.2	0.4	0.5	0.6
Dividend payout (%)	-	6.1	17.0	15.3	13.2
Net debt/equity (x)	(0.1)	(0.0)	(0.0)	(0.1)	(0.1)
Receivables (days)	56	83	78	73	68
Inventory (days)	57	62	62	62	62
Payables (days)	43	35	35	35	35
CFO:PAT (%)	297	18	171	119	106

Source: Company, Systematix Institutional Research

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