

August 02, 2024

RESULT REPORT Q1 FY25 | Sector: Building Materials

Prince Pipes & Fittings Ltd

Volume trajectory revived; margins lower due to adverse product mix; retain BUY!

Result Synopsis

Prince Pipes & Fittings Ltd (PP&F) registered a decent volume growth of 13.5%YoY (2-Year CAGR stood at 16%) owing to healthy demand from plumbing and SWR segment. In June'24, sharp increase in PVC resin prices impacted volumes as channels maintained below-normal inventory. Though volume growth was in-line with our estimates, EBITDA/kg contracted sharply to Rs14.8 (expectation of Rs16.4) Vs Rs12.2/Rs17.9 in Q1FY24/Q4FY24 respectively on account of adverse product-mix and higher branding cost. Notably, working capital improved to 80-days Vs 95-days as of March'24, largely owing to normalization of debtor days to 61 as against 83 in March'24. The Bihar expansion is on schedule & will cater to the growing demand in East India. PP&F commenced sales under Aquel brand in North & West India and will expand presence in Pan-India over coming quarters. Management maintained their volume growth guidance of ~15% and margins are likely to be ~12-13% for long-term.

We reckon volumes to grow by 16%CAGR over FY24-FY26E owing to strong demand from plumbing and infra segment. Moreover, commencement of Bihar facility will boost volumes going ahead. Incrementally, company is planning to add 35-40,000Te via debottlenecking at existing facilities which will be ready in coming 3-quarters. Pipes revenue is expected to grow by 16%CAGR over FY24-FY26E, we have factored in no major expansion in ASP as we believe PP&F will focus more on volume-push. We have revised our EBITDA/Kg estimate downwards to Rs17.5 for FY25E owing to abysmally low margins in Q1FY25 and to Rs20 for FY26E. Hence our EPS estimates have been cut by 6% to 25.7 for FY26E. At CMP, PP&F trades at P/E(x) of 42x/25x on FY25E/FY26E EPS respectively. We continue to value the company at P/E(x) of 30x on FY26E EPS, arriving at a target price of Rs771 (previous target of Rs819), Hence we maintain our BUY rating on the stock.

Result Highlights

- Pipes volumes grew by 13.5%YoY (led by growth in plumbing & SWR segments) & declined by 18%QoQ to 42,180Te. Realizations came in at Rs143 Vs Rs149/Rs144 in Q1FY24/Q4FY24 respectively. Revenue stood at Rs6.05Bn (marginally below est), an increase of 9%YoY & a decline of 18%QoQ.
- EBITDA margins came in at 9.6% (Vs est of 11%) Vs 8.2%/12.5% in Q1FY24/Q4FY24, respectively. Absolute EBITDA stood at Rs583Mn, a growth of 29%YoY & degrowth of 37%QoQ. EBITDA/Kg stood at Rs14.8 Vs Rs12.2/Rs17.9 in Q1FY24/Q4FY24 respectively.
- Net profit for the quarter stood at Rs247Mn, up by 26%YoY & a decrease of 55%QoQ.
- The company commenced sales of 'Aquel by Prince' in North & West India.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,045	6,195	6,125	(2.4)	(1.3)	Revenue broadly in-line but profitability below estimate
EBITDA	583	681	697	(14.5)	(16.4)	
EBITDA Margin (%)	9.6	11.0	11.4	-136 bps	-174 bps	
Adjusted PAT	247	319	401	(22.7)	(38.5)	

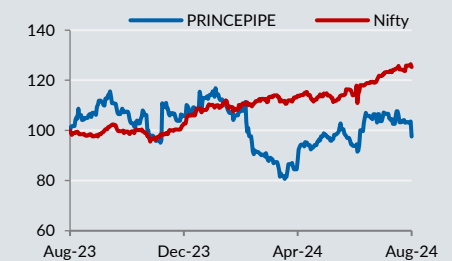
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 635
Target Price	: Rs 771
Potential Return	: +21.4%

Stock data (as on Aug 02, 2024)

Nifty	24,718
52 Week h/l (Rs)	776 / 521
Market cap (Rs/USD mn)	74,468 / 889
Outstanding Shares (mn)	111
6m Avg t/o (Rs mn):	201
Div yield (%):	0.1
Bloomberg code:	PRINCIPI IN
NSE code:	PRINCEPIPE

Stock performance



	1M	3M	1Y
Absolute return	-8.9%	-0.2%	-3.7%

Shareholding pattern (As of Jun'24 end)

Promoter	60.9%
FII+DII	24.9%
Others	14.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	771	819

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	15.3	25.7
EPS (Old)	18.7	27.3
% change	-18.3%	-5.9%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	25,687	29,313	35,469
YoY Growth	(5.2)	14.1	21.0
EBIDTA	3,074	3,277	4,790
EBIDTA (%)	12.0	11.2	13.5
PAT	1,825	1,690	2,841
YoY Growth	50.0	(7.4)	68.1
ROE	12.5	10.4	15.3
EPS	14.9	15.3	25.7
P/E	35.6	41.5	24.7
BV/Share	139.7	155.0	180.7
P/BV	3.8	4.1	3.5

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Exhibit 2: Quarterly Snapshot:

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Revenue	7,644	5,536	6,565	6,186	7,401	6,045	9.2	(18.3)
Expenditure	6,161	5,083	5,623	5,430	6,479	5,462	7.5	(15.7)
- RM	5,121	4,143	4,511	4,316	5,224	4,370	5.5	(16.3)
- Staff Cost	309	320	405	373	379	382	19.1	0.6
- Other Cost	731	620	707	741	876	710	14.6	(18.9)
Operating Profit	1,483	453	942	757	923	583	28.8	(36.8)
OPM(%)	19.4	8.2	14.3	12.2	12.5	9.6	147 bps	-282 bps
Other Income	34	38	40	30	53	26	(32.3)	(51.8)
Depreciation	211	218	225	229	239	257	18.1	7.7
Interest	28	17	7	27	14	14	(16.8)	7.0
PBT	1,278	255	749	530	723	337	32.1	(53.5)
Tax	337	59	222	154	177	90	51.6	(49.1)
PAT	941	196	707	376	546	247	26.1	(54.9)
OCI	(0)	-	(56)	-	36	-	-	-
Reported PAT	941	196	651	376	583	247	26.1	(57.6)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Volumes	44,317	37,155	41,529	42,665	51,444	42,180	13.5	(18.0)
Realization (Rs/Kg)	172	149	158	145	144	143	(3.8)	(0.4)
EBITDA/Kg	33.5	12.2	22.7	17.7	17.9	14.8	21.3	(17.7)

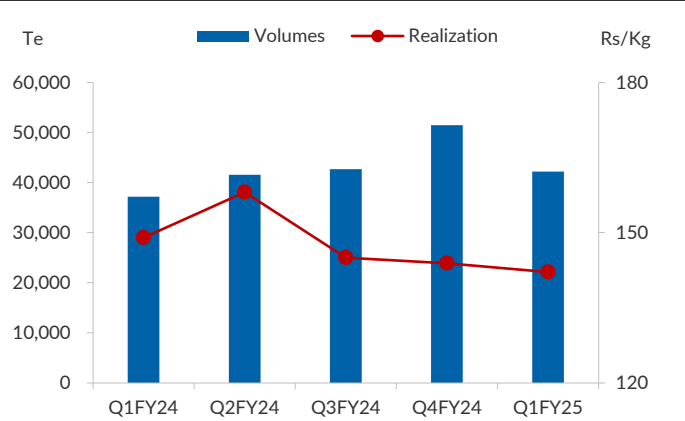
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Guidance:** Management reiterated long-term guidance of 12-13% EBITDA margin ex of any inventory gains or losses. ROE is also expected to increase to ~16% level in 2-3 years. Volume growth will be ~15%.
- Company believes the top 3-4 players will continue to outperform industry growth and PP&F will not resort to undercutting pricing in order to gain volumes as management believes the industry demand is robust.
- Margin for Q1FY25 was lower on account of higher A&P spend at 2.5% of total revenue (at Rs140Mn Vs Rs110Mn in Q1FY24), and product-mix skewed towards agri.
- Bathware & Water tank revenue for the quarter stood at Rs50Mn & Rs100-120Mn respectively.
- Bihar plant with capacity of 45,000Te that would include Pipes, fittings & tanks will be operational by Jan'25 (earlier Mar'25). Management is also going ahead with debottlenecking across all plants which will add 35,000-40,000Te which will be operational in coming 3-quarters.
- Capacity utilization for installed capacity was 60% for the quarter (on rated capacity) and the plants can operate at a peak utilization of 65-70%.
- There were no inventory gains or losses in Q1FY25.
- Company will incur Rs50-60Mn employee expense & Rs100-120Mn branding expense annually for the 'Aquel' brand.
- WC days have reduced from 95 days in Q4FY24 to 80 days in Q1FY25 mainly on account of reduction in receivable days from 80 days to 60 days over similar period.

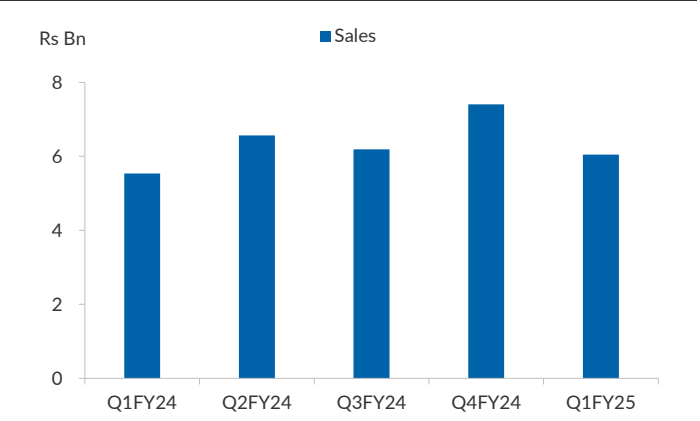
QUARTERLY TRENDS

Exhibit 4: Volume increased by 13.5% YoY...



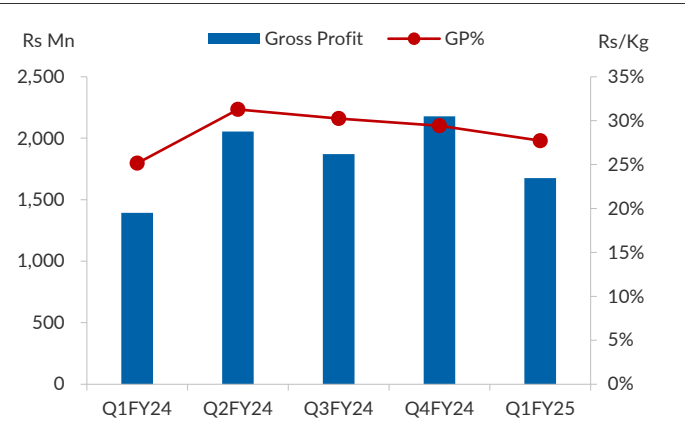
Source: Company, YES Sec

Exhibit 5: Revenue grew by 9% YoY...



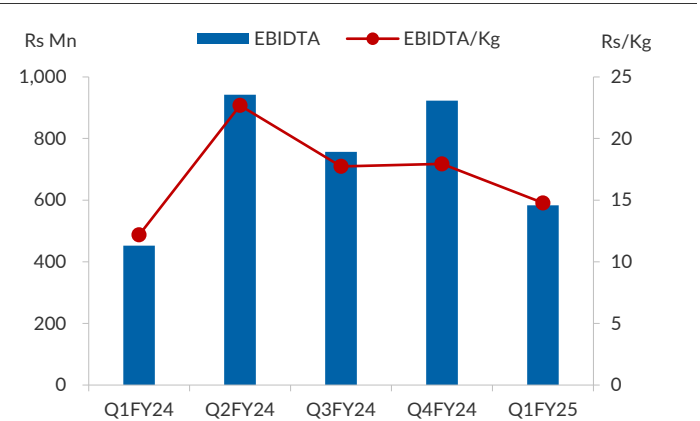
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Exhibit 6: Gross margin came in at 27.7%...



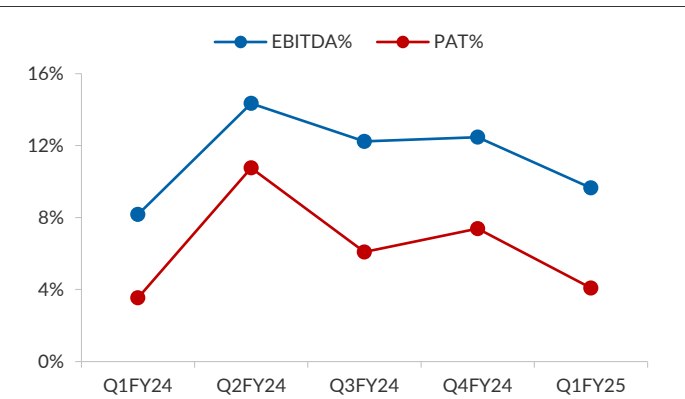
Source: Company, YES Sec

Exhibit 7: EBITDA/Kg stood at Rs15...



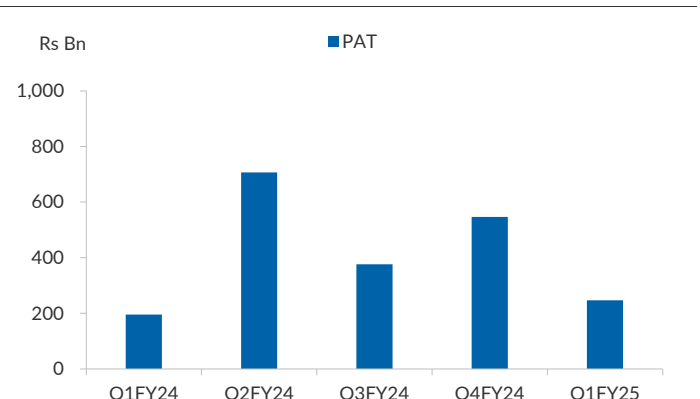
Source: Company, YES Sec

Exhibit 8: OPM & NPM came in at 10% and 4%...



Source: Company, YES Sec

Exhibit 9: Net profit stood at Rs247Mn...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	26,568	27,107	25,687	29,313	35,469
COGS	18,915	20,920	18,194	21,203	25,395
GP	7,653	6,187	7,494	8,110	10,074
GP%	28.8	22.8	29.2	27.7	28.4
Employee	1,162	1,160	1,477	1,595	1,723
Other cost	2,335	2,522	2,943	3,238	3,561
EBITDA	4,156	2,505	3,074	3,277	4,790
EBITDA%	15.6	9.2	12.0	11.2	13.5
Finance cost	139	109	65	114	114
Depreciation	703	830	912	1,079	1,147
Other Income	55	85	161	169	260
PBT	3,369	1,650	2,437	2,253	3,788
Tax	875	434	612	563	947
PAT	2,494	1,217	1,825	1,690	2,841
PAT%	9.4	4.5	7.1	5.8	8.0
EPS	22.6	11.0	14.9	15.3	25.7

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	1,106	1,106	1,106	1,106	1,106
Reserves	11,547	12,534	14,338	16,028	18,870
Non-current Liab	255	305	656	368	368
Borrowings	1,500	581	955	1,144	1,144
Payables	3,985	3,202	2,491	2,669	3,197
Other current Liab	959	1,523	1,606	1,606	1,606
Total Equity & Liab	19,392	19,287	21,232	23,001	26,370
Gross Block	9,232	10,397	12,295	13,095	13,895
Acc Dep	2,817	3,647	4,559	5,638	6,785
Net Block	6,415	6,750	7,736	7,457	7,110
CWIP	225	190	353	1,053	1,753
Other Noncurrent Assets	440	270	438	438	438
Inventory	6,188	4,256	4,379	5,032	6,027
Receivables	4,346	4,150	5,849	5,497	6,417
Cash & Bank	591	1,223	777	1,824	2,925
Loans	5	5	4	4	4
Total Assets	19,392	19,287	21,232	23,001	26,370

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	3,369	1,648	2,258	2,253	3,788
Depreciation & Amortization	703	830	912	1,079	1,147
Finance cost	78	55	(16)	114	114
(Incr)/Decr in Working Capital	(3,531)	1,474	(2,151)	(124)	(1,387)
Taxes	(960)	(401)	(733)	(563)	(947)
Cash from ops.	(195)	3,602	329	2,760	2,715
(Incr)/ Decr in PP&E	(1,692)	(903)	(1,873)	(1,500)	(1,500)
Cash Flow from Investing	205	(1,422)	(1,258)	(1,500)	(1,500)
(Decr)/Incr in Borrowings	647	(919)	560	-	-
Finance cost	(110)	(99)	(46)	(114)	(114)
Cash Flow from Financing	221	(1,281)	475	(213)	(114)
Incr/(Decr) in cash	231	899	(453)	1,047	1,101
Cash and cash equivalents at beginning of year	84	316	1,215	777	1,824
Cash and cash equivalents at end of year	315	1,215	761	1,824	2,925

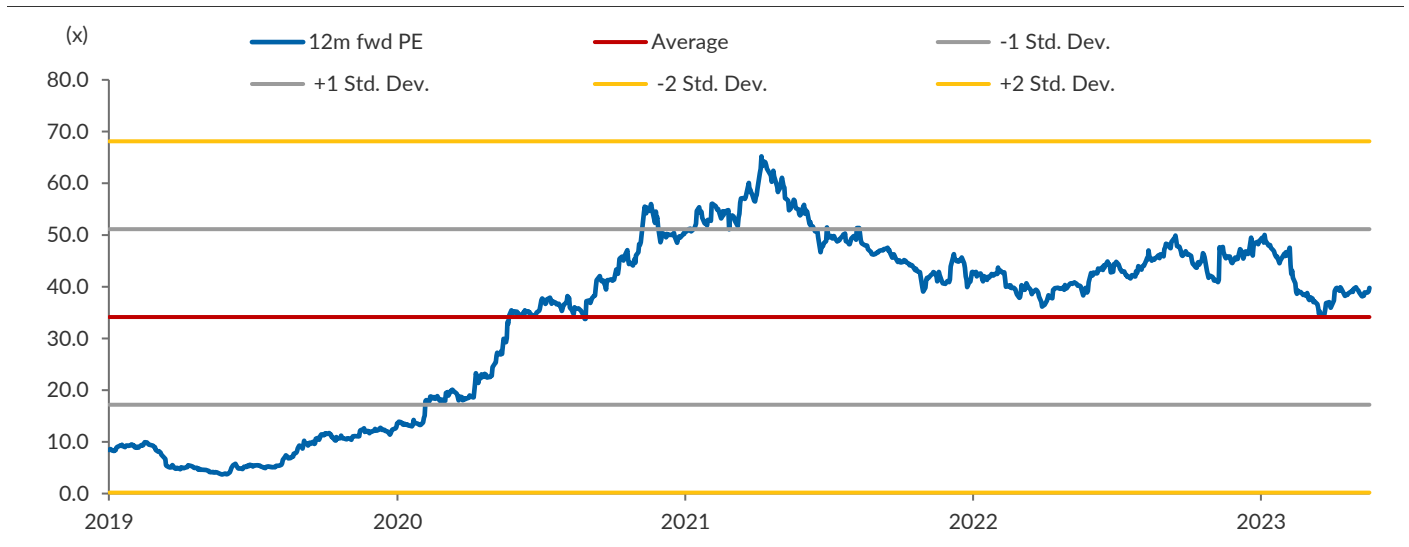
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	28.3	2.0	(5.2)	14.1	21.0
EBITDA growth	14.9	(39.7)	22.7	6.6	46.1
EBIT growth	9.7	(49.8)	32.0	1.9	64.8
PAT growth	12.4	(51.2)	50.0	(7.4)	68.1
Profitability ratios (%)					
GP margin	28.8	22.8	29.2	27.7	28.4
EBITDA margin	15.6	9.2	12.0	11.2	13.5
EBIT margin	13.2	6.5	9.0	8.1	11.0
PAT margin	9.4	4.5	7.1	5.8	8.0
RoCE	29.5	13.1	15.5	14.1	20.6
RoE	21.6	9.3	12.5	10.4	15.3
Per share values					
EPS	22.6	11.0	14.9	15.3	25.7
CEPS	28.9	18.5	24.8	25.0	36.1
BVPS	114.4	123.4	139.7	155.0	180.7
Valuation ratios (x)					
P/E	25.4	54.6	35.6	41.5	24.7
P/CEPS	19.8	32.4	21.4	25.4	17.6
P/B	5.0	4.9	3.8	4.1	3.5
EV/EBITDA	15.5	26.2	19.2	21.2	14.3
Leverage ratios (x)					
Debt/ Equity	0.1	0.0	0.1	0.1	0.1
Net debt/Equity	0.1	(0.0)	0.0	(0.0)	(0.1)
Net debt/EBITDA	0.2	(0.3)	0.1	(0.2)	(0.4)
Int coverage	25.2	16.1	35.8	20.7	34.1
NWC days					
Receivables	54	57	71	66	66
Inventory	82	91	87	87	87
Payables	53	53	46	46	46

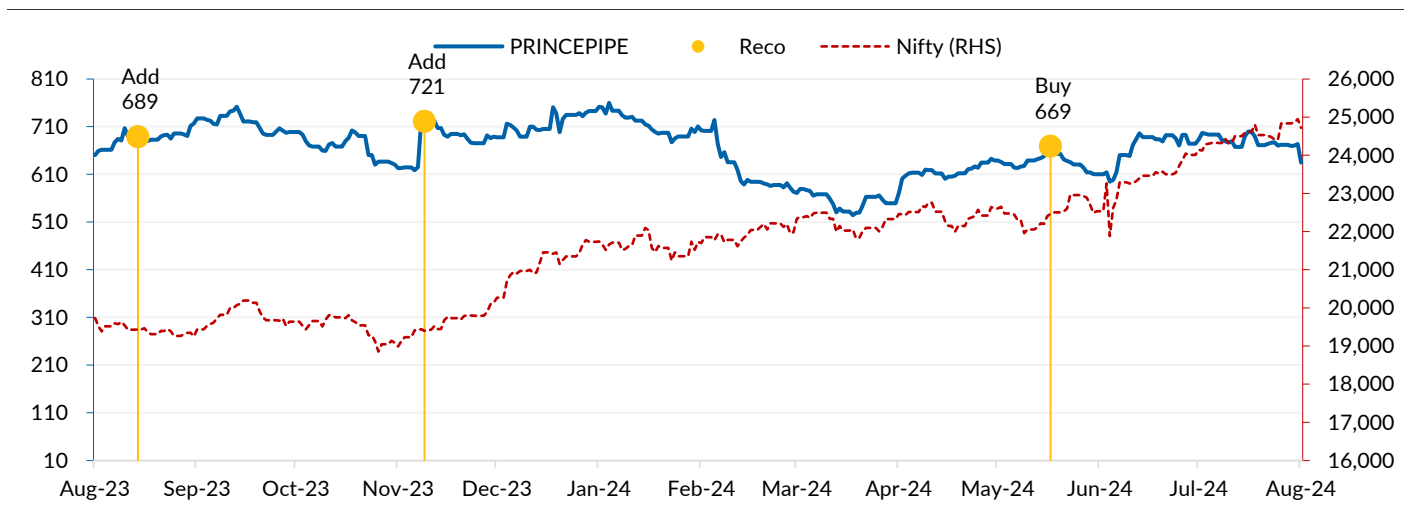
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

DISCLOSURE OF INTEREST

Name of the Research Analyst : Udit Gajiwala, Shalin Damani

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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