

15 September 2023

India | Equity research | Company Update

Prince Pipes & Fittings

Plastic

Demand scenario remains steady; better margin outlook

We visited the largest plant of Prince Pipes and Fittings (PRNCPIP) situated in Haridwar (Uttarkhand) on Sep 13-14, '23, and interacted with its management and its biggest pipe dealer of Haridwar. The Haridwar plant caters to markets primarily in North and East India. The plant has production capacity of 89,163 TPA and is currently running at ~78-80% utilisation. As per the dealer, the demand in Haridwar plant has been driven by plumbing and agriculture segments. Management indicated demand scenario remains steady as seen in Q1FY24 and it is hopeful of achieving mid-double-digit volume growth for FY24. Operating margin is likely to normalise for the remaining 9MFY24 as PVC prices have largely stabilised. Management re-iterated it plans to grow double-digit pipe volumes with operating margin of 12-14% in the medium term. We maintain our estimates and **ADD** rating on the stock with a rolled over Dec'24 target price of INR 772 (earlier INR 749).

Pipe demand trend remains healthy

Management indicated demand for pipes has remained steady as was seen in Q1FY24. Demand is being driven by plumbing segment with agriculture and infrastructure segments too remaining healthy. The continued trend of lower PVC prices is enabling strong demand for pipe segment and is likely to continue in the near term. All ERP-related issues that had partially impacted Q1FY24 had been resolved by Jun'23 and now business is as usual. Management indicated it is on track to achieve its guidance of mid-double-digit pipe volume growth in FY24. In the medium term, it aspires to grow pipe volumes in double digit, and in order to achieve that it is focusing on widening its distribution reach along with decentralisation of plants. We have modelled 12.8% pipe volume CAGR over FY23-26E. Management also highlighted working capital discipline will be maintained with debtor days improvement whereas inventory days would be maintained at ~65-70 days. Bathware business is seeing traction and may require 18-24 months to stabilise.

Pipe margins to be ~12-14% in medium term

Management expects pipe margins to improve from Q2FY24 itself (due to better product mix as CPVC sales are higher, and no inventory losses as PVC resin prices have been rising in Q2FY24). The company believes with increased focus on plumbing segment, where margins are higher, blended operating margins will improve in the medium term. Management believes 12-14% is sustainable margin range for pipe segment in the medium term. We have modelled pipe operating margins of 12.7%-12.9% over FY24-26E.

Financial summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	27,109	29,860	34,088	38,297
EBITDA	2,517	3,590	4,294	4,782
EBITDA %	9.3	12.0	12.6	12.5
Net Profit	1,199	2,106	2,589	2,934
EPS (Rs)	10.8	19.0	23.4	26.5
EPS % Chg YoY	(52.2)	75.6	22.9	13.3
P/E (x)	66.5	37.9	30.8	27.2
EV/EBITDA (x)	31.0	21.6	17.8	15.6
RoCE (%)	8.6	13.4	14.5	14.4
RoE (%)	9.1	14.4	15.6	15.5

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Market Data

Market Cap (INR)	80bn
Market Cap (USD)	959mn
Bloomberg Code	PRNCPIP IN
Reuters Code	PRCE BO
52-week Range (INR)	760 /510
Free Float (%)	37.0
ADTV-3M (mn) (USD)	2.4

Price Performance (%)	3m	6m	12m
Absolute	10.2	27.0	19.7
Relative to Sensex	8.3	19.0	14.7

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

12-08-2023: [Q1FY24 results review](#)

19-06-2023: [Company Update](#)

Maintain ADD

We maintain our estimates for PRINCPIP and continue to like the company for its long-term growth prospects led by its comprehensive product portfolio, focus on enhancing distribution reach and emphasis on branding. Maintain ADD with a rolled over Dec'24 target price of INR 772 (earlier INR 749), set at 30x 1-year forward P/E.

Key highlights: Haridawar plant

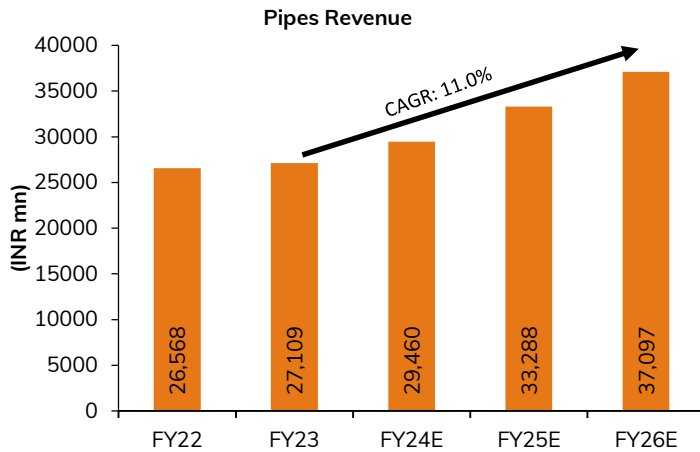
- It is the largest plant of PRINCPIP and contributes ~30-35% of total turnover.
- All types of polymer processing are done at this plant and it is one of the 3 plants of the company that manufactures CPVC pipes and fittings.
- The facility produces pipes from 0.5 inches to 10mm, and fittings from 0.5 inches to 6 inches.
- It does not produce water tanks yet, but the company plans to start its production in this facility in H2FY24.
- Over 4,000 SKUs are produced in this plant and it mainly caters to demand from North and East India.
- Peak utilisation of rated capacity at this plant is ~82%, and currently this facility is operating at ~80% utilisation.
- Availability of skilled manpower and power fluctuations are major challenges in this geography.
- The factory currently has ~10% women in workforce from 0% in FY18 and it plans to increase it further to ~20% over the next 3-4 years.

Haridwar Prince Pipe distributor: Key takeaways

- The distributor has been associated with PRINCPIP since 2016. Besides PRINCPIP, the distributor caters to companies such as Ultratech (for white cement), Crompton (for pumps), Sintex (for tanks) and Simpolo (for sanitaryware).
- In Haridwar, PRINCPIP has two distributors and the said distributor is the largest between them.
- This distributor caters to ~150 retailers of which 80-90 only sell PRINCPIP products.
- As per the distributor, PRINCPIP is the largest player in Haridwar market and is ahead of other players like Astral, Supreme and Finolex.
- The price gap between PRINCPIP and other major players in both PVC and CPVC is ~8-10% (partly due to lower freight rates as PRINCPIP's plant is in close proximity unlike other major players).
- The distributor believes in this region PRINCPIP has better presence than competition due to its plant proximity and better pricing.
- For this distributor growth is coming from individual housing, hotels and also industrial segment.
- CPVC sales account for ~30-35% of the distributor's pipe turnover and in urban markets there is customer awareness for this product.

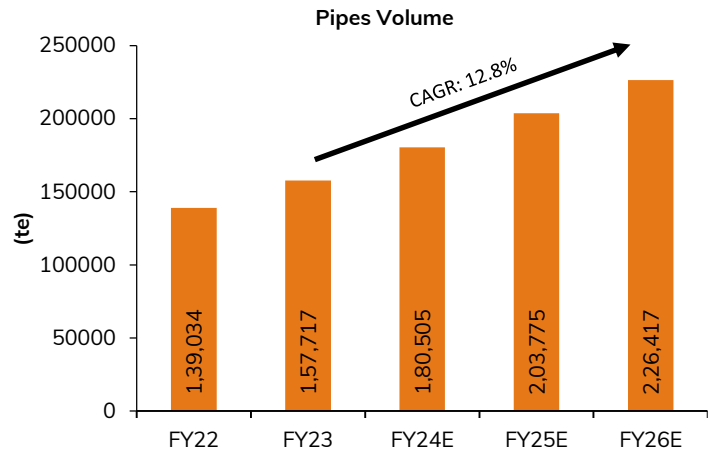
- The dealer organises plumber meets regularly to increase product and brand awareness. Also, they continuously meet architects as they are powerful influencers.
- As per the distributor, sales team of PRINCEPIP in Haridwar has been stable over the last couple of years.
- The distributor believes having Akshay Kumar as its brand ambassador has helped the company push its sales.
- Tie-up with Lubrizol has also boosted the image of the brand and enabled better sales traction.
- The distributor believes tanks business of PRINCEPIP can pick up in this geography due to its strong brand presence.

Exhibit 1: Expect plastic pipe revenue CAGR of 11.0% over FY23-FY26E



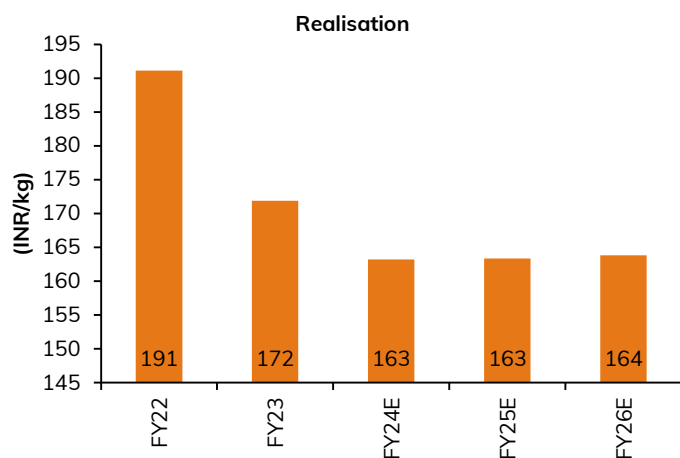
Source: I-Sec research, Company data

Exhibit 2: Plastic pipe volumes likely to witness 12.8% CAGR over FY23-FY26E



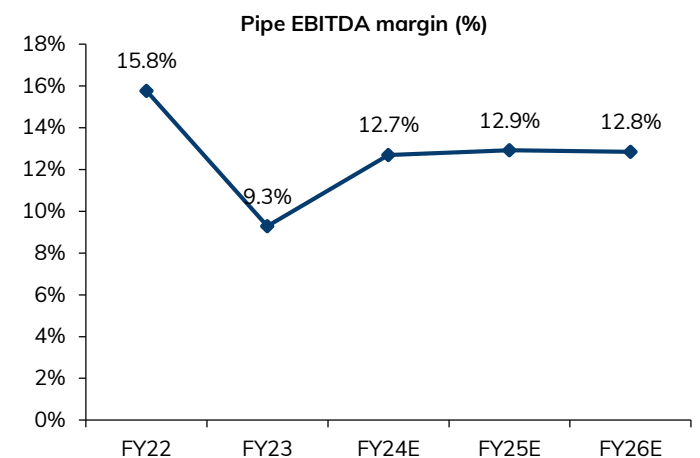
Source: I-Sec research, Company data

Exhibit 3: Realisation to remain stable



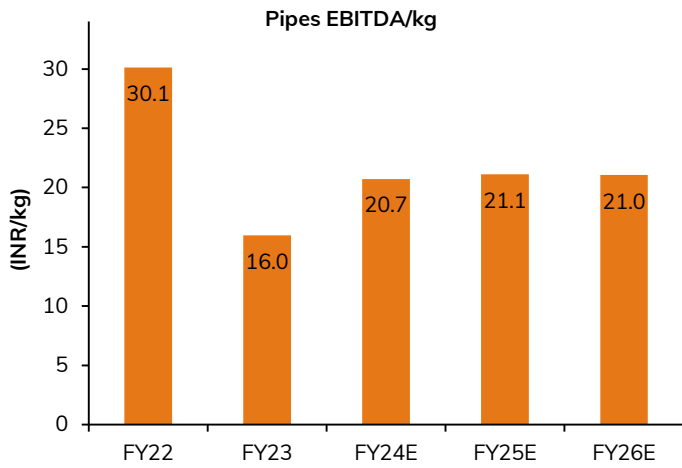
Source: I-Sec research, Company data

Exhibit 4: Pipe EBITDA margin to normalise over FY24-26E



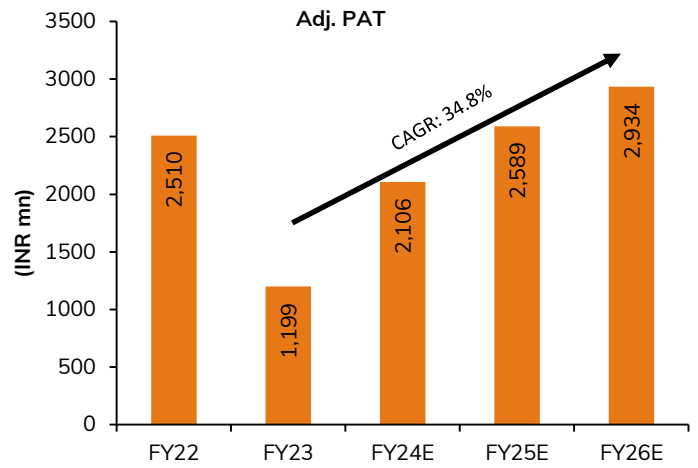
Source: I-Sec research, Company data

Exhibit 5: Pipe EBITDA/kg to rebound over FY24-FY26E



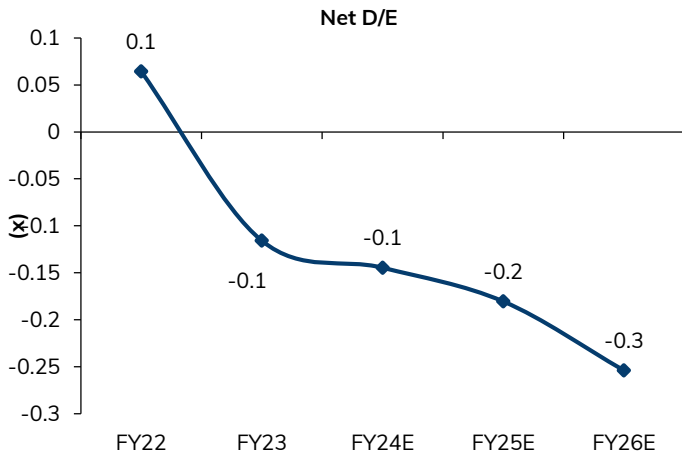
Source: I-Sec research, Company data

Exhibit 6: APAT CAGR of 34.8% over FY23-25E due to low base



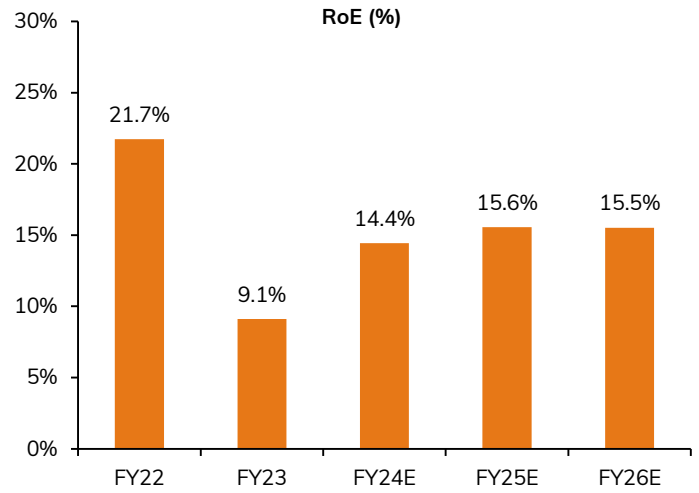
Source: I-Sec research, Company data

Exhibit 7: PRINCPIP to remain net debt free



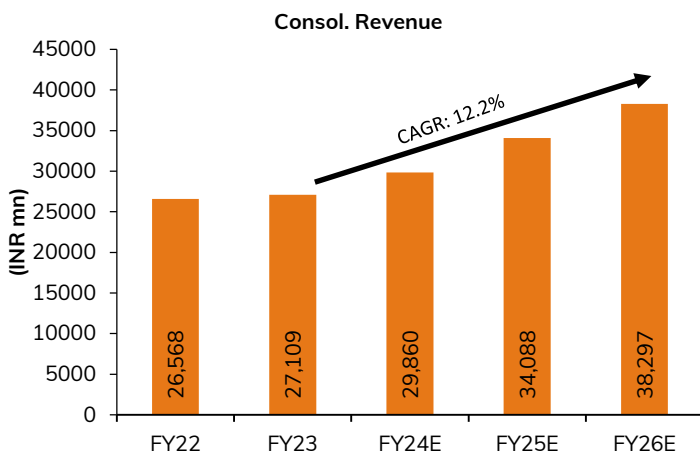
Source: I-Sec research, Company data

Exhibit 8: RoE to stabilise going forward



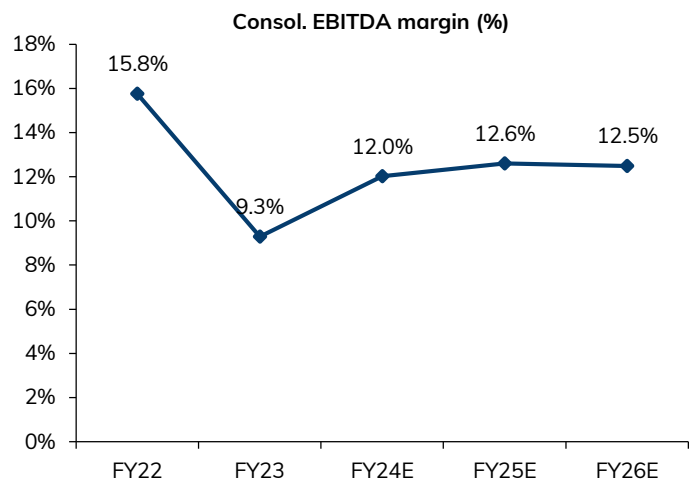
Source: I-Sec research, Company data

Exhibit 9: Consolidated revenue to grow at 12.2% CAGR over FY23-26E



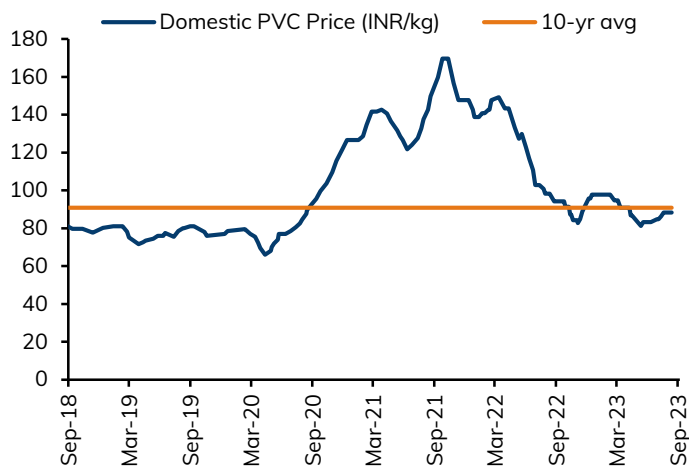
Source: I-Sec research, Company data

Exhibit 10: Consolidated EBITDA margin to remain robust



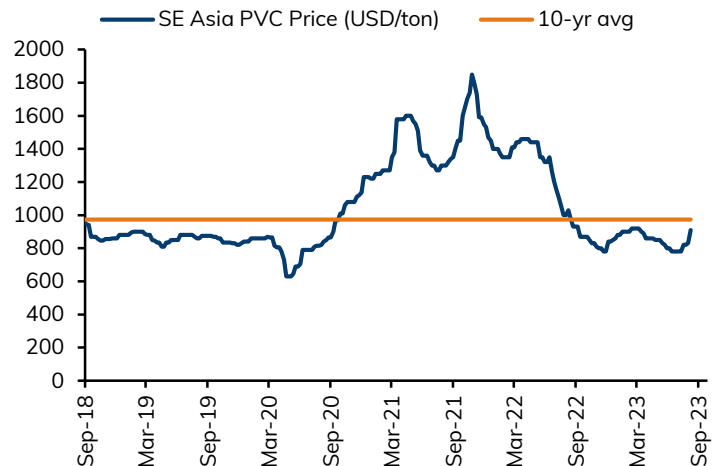
Source: I-Sec research, Company data

Exhibit 11: Domestic PVC resin price has largely stabilised in CY23-TD



Source: I-Sec research, Company data

Exhibit 12: SE Asia PVC resin prices also remain range-bound



Source: I-Sec research, Company data

Valuation

PRINCEPI is among the top 5 players in India’s plastic piping industry. It has plants in seven locations and manufactures pipes and fittings on a wide base of polymer resins (CPVC, UPVC, HDPE, PPR). It also has multiple collaborations, which enable it to have a wider distribution reach (via UltraTech business solutions platform) and have a secure CPVC supply (via Lubrizol), which will enable it to benefit from the growing preference for organised players.

PRINCEPI is likely to witness EBITDA CAGR of 23.8% driven by volume growth of 12.8% over FY23-FY26E, and healthy return ratios (RoE of 15.5% in FY26E). We maintain our estimates, and **ADD** rating on the stock with a rolled over Dec’24 target price of INR 772 (earlier INR 749).

Key downside risks

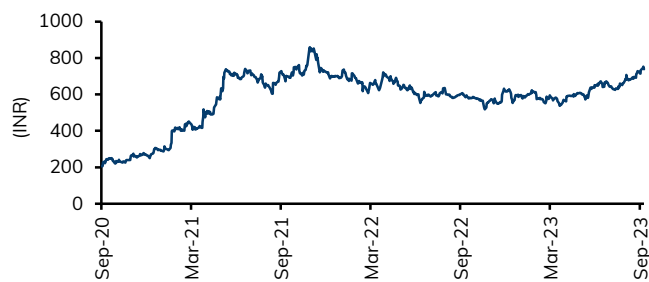
- Slowdown in housing market causing lower demand.
- Sharp fall in PVC prices, which may adversely impact profitability of pipe segment due to inventory losses.
- High increase in prices of raw materials for adhesives may impact segmental profitability and demand.
- Failure to scale up new businesses of sanitaryware, faucetware and paints.
- Inability to properly merge its paint company acquisition.

Exhibit 13: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	62.9	60.9	60.9
Institutional investors	19.9	22.0	22.5
MFs and others	11.2	11.7	12.8
FIs/Banks	4.2	4.0	3.4
Insurance	0.1	0.1	0.1
FII	4.4	6.3	6.3
Others	17.2	17.1	16.6

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	27,109	29,860	34,088	38,297
Operating Expenses	24,592	26,270	29,794	33,515
EBITDA	2,517	3,590	4,294	4,782
EBITDA Margin (%)	9.3	12.0	12.6	12.5
Depreciation & Amortization	830	876	984	1,071
EBIT	1,687	2,714	3,310	3,711
Interest expenditure	110	67	46	32
Other Non-operating Income	52	169	197	244
Recurring PBT	1,629	2,815	3,461	3,922
Less: Taxes	(436)	(709)	(872)	(988)
PAT	1,193	2,106	2,589	2,934
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	21	-	-	-
Net Income (Reported)	1,214	2,106	2,589	2,934
Net Income (Adjusted)	1,199	2,106	2,589	2,934

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	4,256	4,678	5,306	5,968
Cash & cash eqv.	2,161	2,626	3,480	5,277
Sundry Debtors	4,150	4,499	5,137	5,771
Other Current Assets	930	1,227	1,401	1,574
Trade payables	3,202	3,536	4,096	4,596
Other Current Liabilities	935	1,063	1,212	1,360
Net Current Assets	7,361	8,432	10,016	12,634
Investments	3	3	3	3
Net Fixed Assets	6,940	7,564	8,080	7,709
Other Non Current Assets	101	101	101	101
Total Assets	14,405	16,100	18,200	20,447
Liabilities				
Borrowings	581	381	281	181
Other Non Current Liabilities	184	184	184	184
Total Liabilities	765	565	465	365
Equity Share Capital	1,106	1,106	1,106	1,106
Reserves & Surplus	12,534	14,429	16,629	18,976
Total Net Worth	13,640	15,535	17,735	20,082
Minority Interest	-	-	-	-
Total Liabilities & Net Worth	14,405	16,100	18,200	20,447

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	6,365	7,059	7,644	5,536
% growth (YOY)	-16.4	6.3	-15.2	-8.4
EBITDA	-113	695	1,483	453
Margin %	-1.8	9.8	19.4	8.2
Other Income	27	12	34	38
Extraordinary	2	-	-	-
Adjusted Net Profit	-242	354	941	196

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,768	2,376	2,842	3,184
Working Capital Changes	1,710	(606)	(730)	(821)
Capital Commitments	(1,159)	(1,500)	(1,500)	(700)
Free Cashflow	2,609	876	1,342	2,484
Other investing cashflow	14	-	-	-
Cashflow from Investing Activities	(1,145)	(1,500)	(1,500)	(700)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(919)	(200)	(100)	(100)
Dividend paid	-	(211)	(388)	(587)
Others	(230)	0	0	0
Cash flow from Financing Activities	(1,149)	(411)	(488)	(687)
Chg. in Cash & Bank balance	1,474	465	854	1,797
Closing cash & balance	2,161	2,626	3,480	5,277

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	11.0	19.0	23.4	26.5
Adjusted EPS (Diluted)	10.8	19.0	23.4	26.5
Cash EPS	18.4	27.0	32.3	36.2
Dividend per share (DPS)	-	1.9	3.5	5.3
Book Value per share (BV)	123.4	140.5	160.4	181.6
Dividend Payout (%)	-	10.0	15.0	20.0
Growth (%)				
Net Sales	2.0	10.1	14.2	12.3
EBITDA	(39.9)	42.6	19.6	11.4
EPS (INR)	(52.2)	75.6	22.9	13.3
Valuation Ratios (x)				
P/E	66.5	37.9	30.8	27.2
P/CEPS	39.3	26.7	22.3	19.9
P/BV	5.8	5.1	4.5	4.0
EV / EBITDA	31.0	21.6	17.8	15.6
EV / Sales	2.9	2.6	2.2	1.9
Dividend Yield (%)	-	0.3	0.5	0.7
Operating Ratios				
Gross Profit Margins (%)	22.8	28.0	28.1	28.2
EBITDA Margins (%)	9.3	12.0	12.6	12.5
Effective Tax Rate (%)	26.8	25.2	25.2	25.2
Net Profit Margins (%)	4.4	7.1	7.6	7.7
NWC / Total Assets (%)	28.0	28.0	27.8	27.9
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.6)	(0.6)	(0.7)	(1.1)
Profitability Ratios				
RoCE (%) (post-tax)	8.6	13.4	14.5	14.4
RoE (%)	9.1	14.4	15.6	15.5
Cash Conversion Cycle (on net sales)				
Inventory Days	57	57	57	57
Receivables Days	56	55	55	55
Payables Days	43	43	44	44

Source Company data, I-Sec research

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