

November 08, 2024

RESULT REPORT Q2 FY25 | Sector: Building Materials

Prince Pipes & Fittings Ltd

Beat on volume front but sharp knock on profitability!

Result Synopsis

Prince Pipes & Fittings Ltd (PRINCPIP) reported a weak set of numbers in Q2FY25. Though volumes increased by 4%YoY to 43,301Te, which was above our estimates, and the same better than the listed peers, but 2-year CAGR stood at 6%, which is meaningfully below industry average. Volumes were impacted due to extended monsoons and sharp fall in PVC prices, which led to dealer destocking. However, growth of 4%YoY was primarily led by plumbing & SWR segment. ASP remained steady at Rs144/Kg despite falling PVC prices on account of better product-mix. Incrementally, margins declined sharply & EBITDA/Kg came in at Rs10.6 (8-quarter low profitability) Vs Rs22.7 (incl inventory gain)/Rs13.8 in Q2FY24/Q1FY25 respectively owing to higher input cost led by inventory build-up, inventory loss of Rs120-150Mn during Q2FY25 and Rs30-40Mn loss for bathware biz. For H1FY25, company's volumes increased by 9%YoY to 85,481Te with ASP of Rs143/Kg and EBITDA/Kg of Rs12. Working capital expanded to 93-days Vs 80-days in previous quarter largely due to higher inventory days that was 88-days Vs 70-days in Q1FY25.

Management Guidance

Management guided for 8-10%YoY volume growth of FY25 Vs earlier guidance of 15% and for EBITDA margins, company expects to deliver 12% without any inventory losses. For bathware company aims to end FY25 at Rs250Mn. Company expects Bihar plant to commence operations from Q4FY25 with an initial capacity of 55,000Te & this should enable PRINCPIP to grow rapidly in east-India.

Our View

Owing to sluggish growth in H1FY25, we have revised our volume growth estimate for FY25 from 15% to 10%. However major cut in our EPS is driven by lower EBITDA/Kg, which we expect to come in at Rs14/Kg Vs earlier est of 17.5/Kg. Going forward, H2FY25 is expected to be better owing to commencement of restocking at dealer level with improvement in PVC prices coupled with better plumbing and infra demand. We expect pipe volumes to grow by 13% CAGR over FY24-FY27E. However, we reckon, in order to gain volume share company's profitability could remain under-check, hence, we expect EBITDA/Kg to come in at Rs15.5/Rs16.5 for FY26E/FY27E respectively. Bathware segment is likely to grow gradually & the same will contribute to profitability post FY27E onwards. Hence, we expect Revenue/EBITDA/PAT to grow by 14%/11%/12% (adjusted for exceptional gain in FY24) respectively over FY24-FY27E.

Given the recent correction in stock price & roll-over to FY27E, PRINCPIP trades at P/E(x) of 22x on FY27E EPS of Rs21. We continue to value the company at P/E(x) of 30x on FY27E EPS, arriving at a target price of Rs623, implying an upside of 34%. Hence, we assign a BUY rating to the stock.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,221	5,756	6,775	8.1	(8.2)	Revenue above estimates but miss on profitability.
EBITDA	457	555	866	(17.7)	(47.2)	
EBITDA Margin (%)	7.3	9.6	12.8	(230 bps)	(543 bps)	
Adjusted PAT	147	232	464	(36.5)	(68.3)	

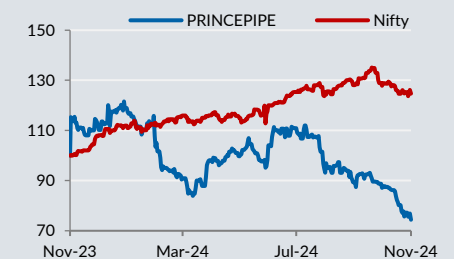
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 465
Target Price	: Rs 623
Potential Return	: +34.0%

Stock data (as on Nov 8, 2024)

Nifty	24,132
52 Week h/l (Rs)	776 / 461
Market cap (Rs/USD mn)	52688 / 625
Outstanding Shares (mn)	111
6m Avg t/o (Rs mn):	119
Div yield (%):	0.2
Bloomberg code:	PRINCPIP IN
NSE code:	PRINCEPIE

Stock performance



	1M	3M	1Y
Absolute return	-15.0%	-23.2%	-35.4%

Shareholding pattern (As of Sep'24 end)

Promoter	60.9%
FII+DII	24.8%
Others	14.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	623	771

Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	9.1	16.1	20.8
EPS (Old)	15.3	25.7	-
% change	-40.2%	-37.3%	-

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	27,810	33,132	38,454
YoY Growth	8.3	19.1	16.1
EBITDA	2,461	3,538	4,248
EBITDA (%)	8.8	10.7	11.0
PAT	1,011	1,782	2,297
YoY Growth	(44.6)	76.2	28.9
ROE	6.3	10.3	11.8
EPS	9.1	16.1	20.8
P/E	50.8	28.9	22.4
BV/Share	148.8	164.9	185.7
P/BV	3.1	2.8	2.5

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Result Highlights

- Volumes stood at 43,301Te (5% above est), a growth of 4%YoY and 3%QoQ (2-year CAGR stood at 6%). ASP for Prince pipes remained flattish on sequential basis at Rs144/Kg (Vs est of Rs140/Kg).
- Revenue stood at Rs6.22Bn (8% above est), a decrease of 5%YoY & an increase of 3%QoQ.
- EBITDA margins came in at 7.3% (Vs est of 9.6%) Vs 14.3%/9.6% in Q2FY24/Q1FY25, respectively. Absolute EBITDA stood at Rs457Mn, a decline of 51.5%YoY & 22%QoQ.
- EBITDA/Kg declined to Rs10.6 as against Rs13.8 in previous quarter & Rs22.7 in Q2FY24 (incl inv gain). Low volumes, channel destocking, and falling PVC prices led to fall in margins.
- An additional short provision for tax adjustments in respect of earlier years of Rs8.74Mn was incurred by the company.
- Net profit for the quarter stood at Rs147Mn, a decline of 79%YoY (decline of 72%YoY excl exceptional gain of Rs179Mn) & 40%QoQ.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Revenue	5,536	6,565	6,186	7,401	6,045	6,221	(5.2)	2.9	12,100	12,265	1.4
Expenditure	5,083	5,623	5,430	6,479	5,462	5,764	2.5	5.5	10,706	11,226	4.9
- RM	4,143	4,511	4,316	5,224	4,370	4,542	0.7	3.9	8,654	8,911	3.0
- Staff Cost	320	405	373	379	382	446	10.2	16.9	725	828	14.2
- Other Cost	620	707	741	876	710	776	9.8	9.2	1,327	1,486	12.0
Operating Profit	453	942	757	923	583	457	(51.5)	(21.6)	1,394	1,040	(25.4)
OPM(%)	8.2	14.3	12.2	12.5	9.6	7.3	(700 bps)	(230 bps)	11.5	8.5	(305 bps)
Other Income	38	40	30	53	26	39	(0.4)	53.5	77	65	(16.0)
Depreciation	218	225	229	239	257	276	22.3	7.0	443	533	20.2
Interest	17	7	27	14	14	16	137.4	13.1	24	31	27.0
PBT	255	749	530	723	337	204	(72.7)	(39.3)	1,004	541	(46.1)
Exceptional	-	179	-	-	-	-			179	-	
Tax	59	222	154	177	90	57	(74.2)	(36.3)	281	147	(47.7)
PAT	196	707	376	546	247	147	(79.2)	(40.4)	902	394	(56.3)
OCI	-	(56)	-	36	-	(2)	NM	NM	(56)	(2)	NM
Reported PAT	196	651	376	583	247	145	(77.7)	(41.2)	846	392	(53.7)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Volumes	37,155	41,529	42,665	51,444	42,180	43,301	4.3	2.7	78,684	85,481	8.6
Realization (Rs/Kg)	149	158	145	144	143	144	(9.1)	0.2	154	143	(6.7)
EBITDA/Kg	12.2	22.7	17.7	17.9	13.8	10.6	(53.5)	(23.7)	17.7	12.2	(31.4)

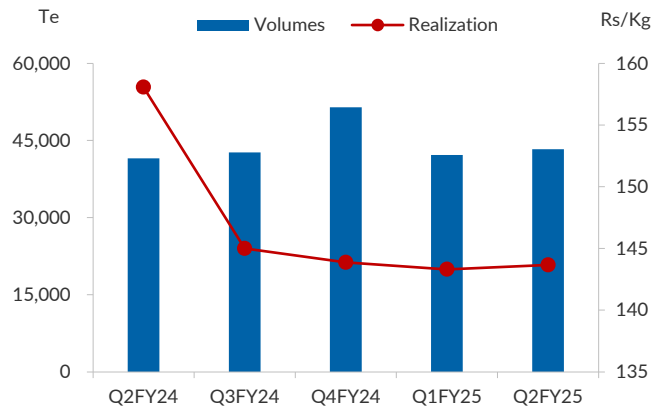
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Guidance:** Company lowered volume growth guidance from 15% to 8-10% for FY25 and EBITDA margins should normalize at 12% excluding any inventory losses.
- For bathware, management aims to deliver a topline of Rs250Mn. This segment should breakeven by H2FY26 onwards.
- Volumes were impacted as dealers resorted to de-stocking due to 16% fall in PVC resin prices during the quarter.
- ASP remained steady due to better product-mix.
- Operating margins were impacted due to 1.5-2% impact of inventory loss (Rs120-150Mn), 0.5% impact of bathware loss, 2% trade incentives passed to channel. Also, lower volumes led to operating deleveraging.
- On current demand, October'24 remained muted but re-stocking has commenced from Nov'24.
- Bihar plant is expected to start from Q4FY25 with an initial capacity of 55,000Te which will cater to growing demand of eastern India.
- **Capex:** Company will spend Rs1.70Bn for Bihar, Rs300-350Mn for de-bottlenecking, Rs800-900Mn as maintenance capex. For Aquel a sum of Rs430Mn will be paid for purchase consideration in H2FY25 & Rs50-70Mn will be incurred for maintenance capex of bathware.
- Currently PRINCP is focusing on growing the value-added products in existing product-mix and have no plans to expand into O-PVC.
- Company has 80-acre of land at Jaipur and 50-acre at Telangana where they can de-bottleneck capacities.
- Inventory days should come down by 10-12days by FY25 & debtor's days should improve by 3-4days in Q3FY25 and fall below 50-days by Q4FY25.

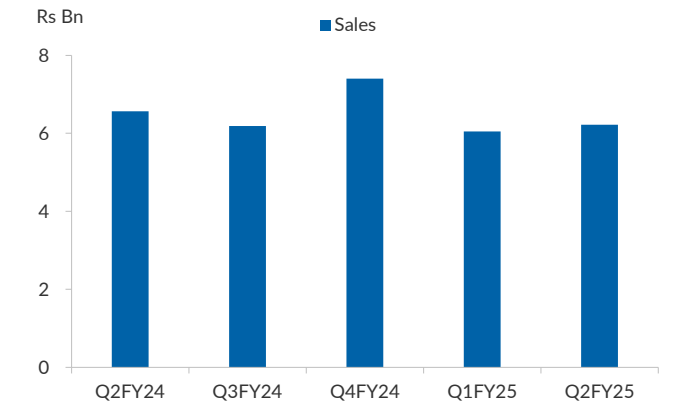
QUARTERLY TRENDS

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



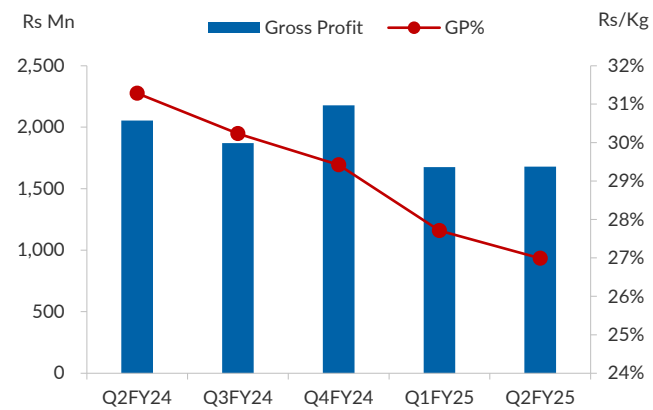
Source: Company, YES Sec

Exhibit 5: Revenue degrew by 5%YoY...



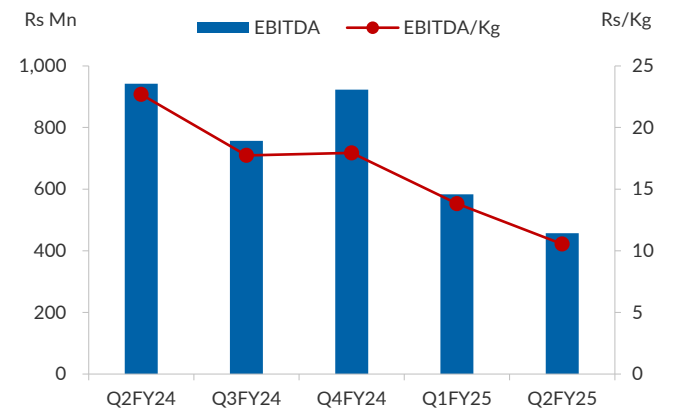
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Exhibit 6: Gross margin came in at 27%...



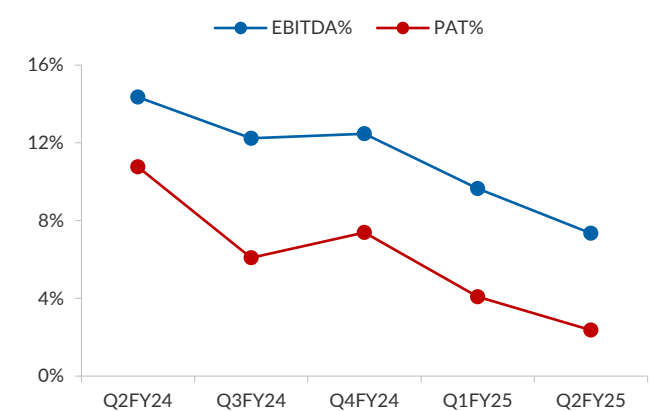
Source: Company, YES Sec

Exhibit 7: EBITDA/Kg stood at Rs10.6...



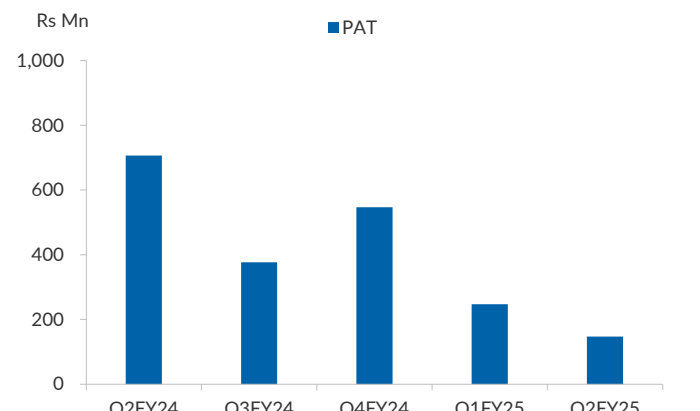
Source: Company, YES Sec

Exhibit 8: OPM & NPM came in at 7.3% and 2.4%...



Source: Company, YES Sec

Exhibit 9: Net profit stood at Rs147Mn...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Sales	27,107	25,687	27,810	33,132	38,454
COGS	20,920	18,194	20,428	24,115	28,106
GP	6,187	7,494	7,382	9,017	10,348
GP%	22.8	29.2	26.5	27.2	26.9
Employee	1,160	1,477	1,625	1,787	1,966
Other cost	2,522	2,943	3,296	3,692	4,135
EBITDA	2,505	3,074	2,461	3,538	4,248
EBITDA%	9.2	12.0	8.8	10.7	11.0
Finance cost	109	65	86	86	86
Depreciation	830	912	1,143	1,215	1,287
Other Income	85	161	116	138	187
PBT	1,650	2,437	1,348	2,376	3,062
Tax	434	612	337	594	766
PAT	1,217	1,825	1,011	1,782	2,297
PAT%	4.5	7.1	3.6	5.4	6.0
EPS	11.0	14.9	9.1	16.1	20.8

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
Share Capital	1,106	1,106	1,106	1,106	1,106	1,106
Reserves	12,534	14,338	14,620	15,350	17,131	19,428
Non-current Liab	305	656	1,061	368	368	368
Borrowings	581	955	952	1,144	1,144	1,144
Payables	3,202	2,491	2,450	2,572	3,036	3,538
Other current Liab	1,523	1,606	1,767	1,606	1,606	1,606
Total Equity & Liab	19,287	21,232	22,088	22,225	24,471	27,270
Gross Block	10,397	12,295	13,023	13,095	13,895	14,695
Acc Dep	3,647	4,559	5,092	5,701	6,916	8,202
Net Block	6,750	7,736	7,931	7,394	6,979	6,493
CWIP	190	353	539	1,053	1,753	2,453
Other Noncurrent Assets	270	438	866	438	438	438
Inventory	4,256	4,379	5,885	4,848	5,723	6,670
Receivables	4,150	5,849	3,702	5,215	5,994	6,957
Cash & Bank	1,223	777	772	1,577	1,883	2,558
Loans	5	4	4	4	4	4
Total Assets	19,287	21,232	22,088	22,225	24,471	27,270

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
PBT	1,648	2,258	541	1,348	2,376	3,062
Depreciation & Amortization	830	912	533	1,143	1,215	1,287
Finance cost	55	(16)	(16)	86	86	86
(Incr)/Decr in Working Capital	1,474	(2,151)	122	245	(1,190)	(1,408)
Taxes	(401)	(733)	(220)	(337)	(594)	(766)
Cash from ops.	3,602	329	973	2,484	1,892	2,262
(Incr)/ Decr in PP&E	(903)	(1,873)	(1,274)	(1,500)	(1,500)	(1,500)
Cash Flow from Investing	(1,422)	(1,258)	(1,690)	(1,500)	(1,500)	(1,500)
(Decr)/Incr in Borrowings	(919)	560	439	-	-	-
Finance cost	(99)	(46)	(19)	(86)	(86)	(86)
Cash Flow from Financing	(1,281)	475	268	(185)	(86)	(86)
Incr/(Decr) in cash	899	(453)	(449)	799	306	675
Cash and cash equivalents at beg of year	316	1,215	761	777	1,577	1,883
Cash and cash equivalents at end of year	1,215	761	312	1,577	1,883	2,558

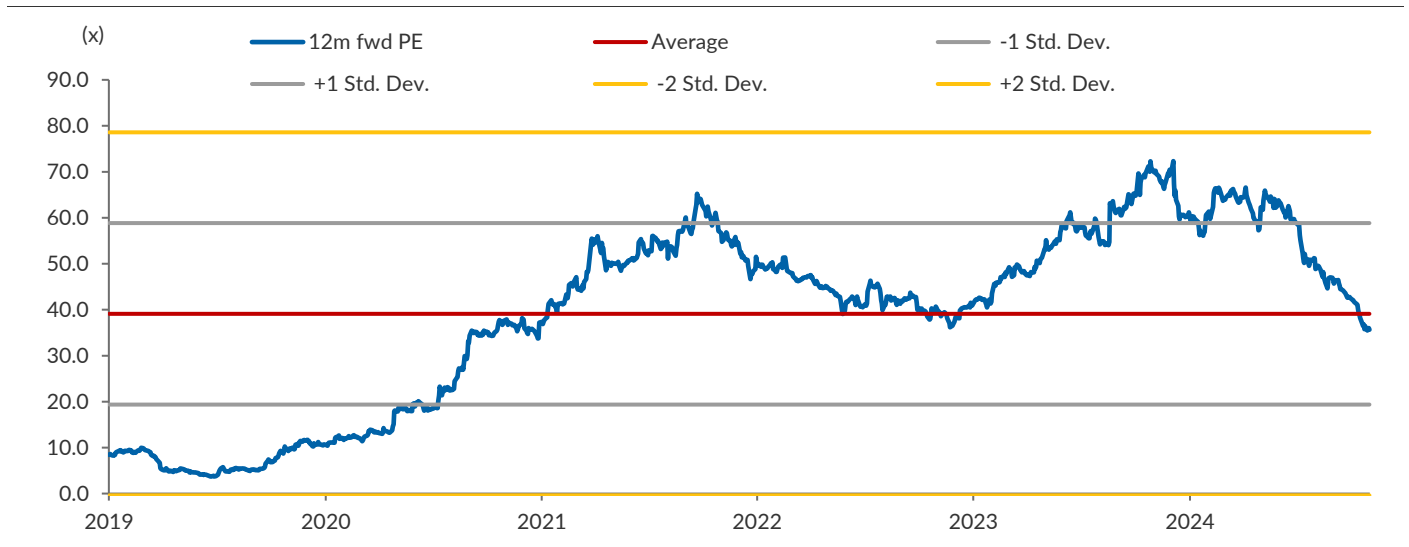
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth Matrix (%)					
Revenue growth	2.0	(5.2)	8.3	19.1	16.1
EBITDA growth	(39.7)	22.7	(19.9)	43.8	20.1
EBIT growth	(49.8)	32.0	(38.2)	71.6	27.9
PAT growth	(51.2)	50.0	(44.6)	76.2	28.9
Profitability ratios (%)					
GP margin	22.8	29.2	26.5	27.2	26.9
EBITDA margin	9.2	12.0	8.8	10.7	11.0
EBIT margin	6.5	9.0	5.2	7.4	8.2
PAT margin	4.5	7.1	3.6	5.4	6.0
RoCE	13.1	15.5	8.7	13.9	15.9
RoE	9.3	12.5	6.3	10.3	11.8
Per share values					
EPS	11.0	14.9	9.1	16.1	20.8
CEPS	18.5	24.8	19.5	27.1	32.4
BVPS	123.4	139.7	148.8	164.9	185.7
Valuation ratios (x)					
P/E	54.6	35.6	50.8	28.9	22.4
P/CEPS	32.4	21.4	23.9	17.2	14.3
P/B	4.9	3.8	3.1	2.8	2.5
EV/EBITDA	26.2	19.2	20.7	14.3	11.8
Leverage ratios (x)					
Debt/ Equity	0.0	0.1	0.1	0.1	0.1
Net debt/Equity	(0.0)	0.0	(0.0)	(0.0)	(0.1)
Net debt/EBITDA	(0.3)	0.1	(0.2)	(0.2)	(0.3)
Int coverage	16.1	35.8	16.6	28.6	36.5
NWC days					
Receivables	57	71	66	66	66
Inventory	91	87	87	87	87
Payables	53	46	46	46	46

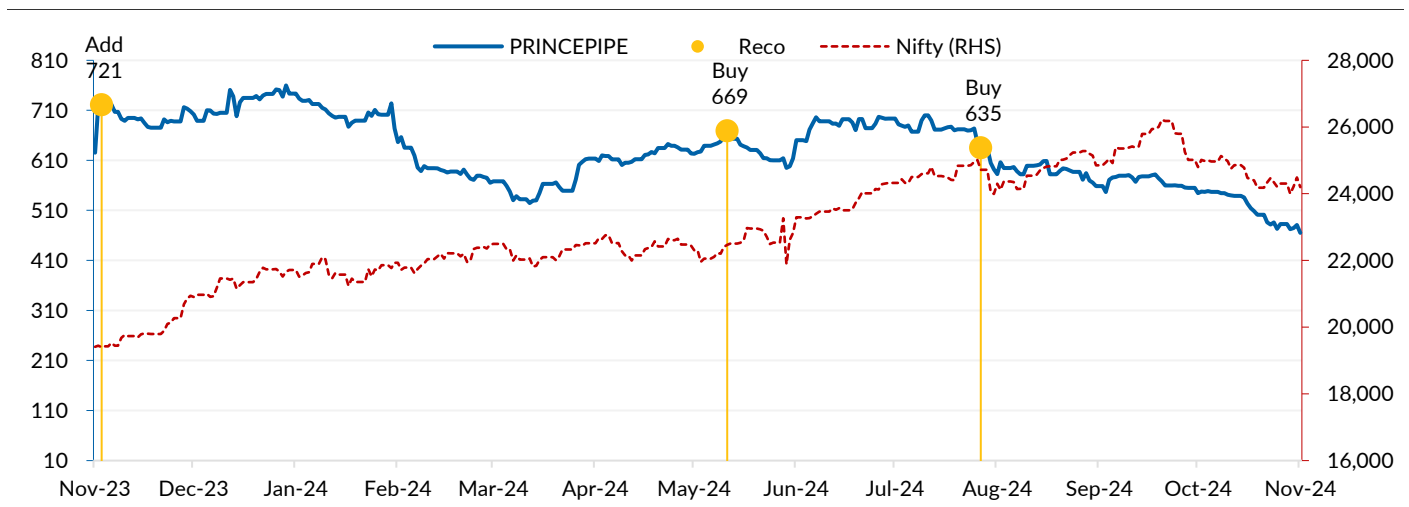
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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