

HOLD**TP: Rs 650 | ▼ 3%****PRINCE PIPES & FITTINGS**

Building Materials

06 February 2024

Lacklustre quarter on sustained market share loss

- Q3 PAT came in 36% below our estimate on continued market share bleed and margin pressure
- Management appears confident of regaining lost share without hurting margin profile and working capital cycle from Q1FY25
- TP cut to Rs 650 (vs. Rs 800) on 17-24% earnings downgrade for FY24-FY26; maintain HOLD

Utkarsh Nopany

research@bobcaps.in

Disappointing quarter: PRINCEPI was well short of our Q3FY24 revenue/EBITDA/PAT estimates by 16%/25%/36% due to weak volumes (-2.4% YoY vs. +10% estimated) and sharp contraction in EBITDA per unit (-22% QoQ to Rs 17.7/kg) on account of lower realisation (-8% QoQ) and MTM inventory loss of Rs 100mn. Overall, the company's revenue fell 12% YoY, whereas EBITDA/PAT grew 9%/6% YoY off a low base.

Key highlights: The company posted inferior pipe volume growth compared to peers for the sixth consecutive quarter (PRINCEPI: -2.4% YoY, APOLP: +4.8%, ASTRA: +15%, SI: +17%), despite providing an extended credit period to dealers (from 44 days in Q3FY23 to 72 days in Q3FY24). Its net cash position has dropped from Rs 1.8bn in Sep'23 to Rs 0.6bn in Dec'23 due to a spike in working capital.

Positive commentary: PRINCEPI has taken corrective action by realigning its product prices with major peers in H2CY23, which management believes will help it gradually regain lost market share from Q1FY25. EBITDA margin guidance remains in a range of 12-14% for FY25 and debtor period is expected to come down from 72 days in Q3 to ~60 days in the coming quarters.

Capex guidance raised: The company has guided for capex of Rs 1.1bn-1.2bn (vs. Rs 0.8bn-1bn earlier) and Rs 0.9bn-1bn for debottlenecking and maintenance over FY24 and FY25 respectively (ex-Bihar project). With an increase in project scope from 40ktpa to ~50ktpa to include a range of fittings, the cost of the Bihar greenfield unit has risen from Rs 1.5bn to Rs 2.2bn and it is expected to be completed by Q4FY25.

Maintain HOLD, TP cut to Rs 650: We reduce our TP to Rs 650 (from Rs 800) following a sharp cut in our EPS estimates by 19%/24%/17% for FY24/FY25/FY26 in the wake of a lacklustre Q3 print. We now model for a muted 3% EPS CAGR over FY23-FY26 and maintain our HOLD rating on the stock due to the tepid earnings growth profile coupled with expensive valuations. The stock is trading at 37.2x on 1Y forward P/E vs. its 5Y average of 32.6x. Our target P/E multiple remains at 30x on Sep'25E EPS, which is in line with the stock's historical multiple.

Key changes

Target	Rating
▼	◀ ▶

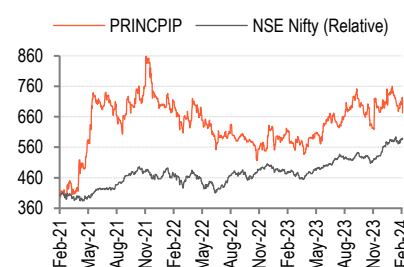
Ticker/Price	PRINCEPI IN/Rs 674
Market cap	US\$ 906.3mn
Free float	39%
3M ADV	US\$ 3.9mn
52wk high/low	Rs 776/Rs 533
Promoter/FPI/DII	61%/5%/19%

Source: NSE | Price as of 6 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	27,109	25,354	28,773
EBITDA (Rs mn)	2,517	3,106	3,681
Adj. net profit (Rs mn)	1,223	1,645	2,036
Adj. EPS (Rs)	11.1	14.9	18.4
Consensus EPS (Rs)	11.1	19.0	25.8
Adj. ROAE (%)	9.3	11.5	13.0
Adj. P/E (x)	60.9	45.3	36.6
EV/EBITDA (x)	29.7	24.1	20.7
Adj. EPS growth (%)	(51.3)	34.5	23.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Quarterly performance – Standalone

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Operating income	6,186	7,059	(12.4)	6,565	(5.8)	18,286	19,465	(6.1)
Raw-Material expense	4,316	5,483	(21.3)	4,511	(4.3)	12,969	15,801	(17.9)
Gross Profit	1,870	1,576	18.7	2,054	(8.9)	5,317	3,664	45.1
Employee expense	373	311	19.8	405	(7.9)	1,098	852	28.9
Other expense	741	570	30.0	707	4.8	2,068	1,792	15.4
EBITDA	757	695	8.9	942	(19.7)	2,152	1,020	111.0
D&A	229	211	8.8	225	1.7	673	619	8.7
EBIT	528	484	8.9	716	(26.4)	1,479	401	268.8
Interest cost	27	16	67.7	7	293.3	51	82	(37.1)
Other income	30	12	147.0	219	(86.2)	287	51	459.3
PBT	531	480	10.5	928	(42.9)	1,714	370	362.8
Tax	154	126	22.0	222	(30.6)	436	97	347.0
Reported PAT	376	354	6.3	706	(46.7)	1,279	273	368.4
Adjusted PAT	376	354	6.3	663	(43.3)	1,236	273	352.7
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	30.2	22.3	791	31.3	(105)	29.1	18.8	1,025
Employee cost	6.0	4.4	162	6.2	(14)	6.0	4.4	163
Other cost	12.0	8.1	390	10.8	121	11.3	9.2	210
EBITDA margin	12.2	9.8	239	14.3	(212)	11.8	5.2	653
Tax rate	29.1	26.3	275	23.9	515	25.4	26.3	(90)
APAT margin	6.1	5.0	107	10.1	(402)	6.8	1.4	536

Source: Company, BOBCAPS Research

Fig 2 – Key operating metrics

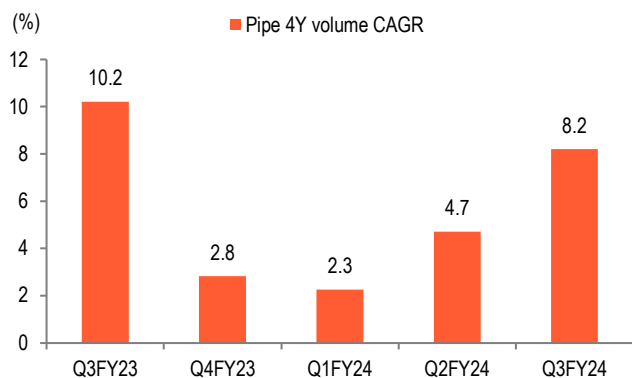
Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Sales volumes (ktpa)	43	44	(2.4)	42	2.7	121	113	7.0
Realisation (Rs/kg)	145	162	(10.3)	158	(8.3)	151	172	(12.2)
EBITDA per unit (Rs/kg)	17.7	15.9	11.5	22.7	(21.8)	17.7	9.0	97.2
Inventory (days)	74	52	-	57	-	75	57	-
Debtor (days)	72	44	-	59	-	73	48	-
Creditor (days)	55	49	-	39	-	56	53	-
Operating cycle (days)	91	48	-	77	-	92	52	-

Source: Company, BOBCAPS Research

Earnings call highlights

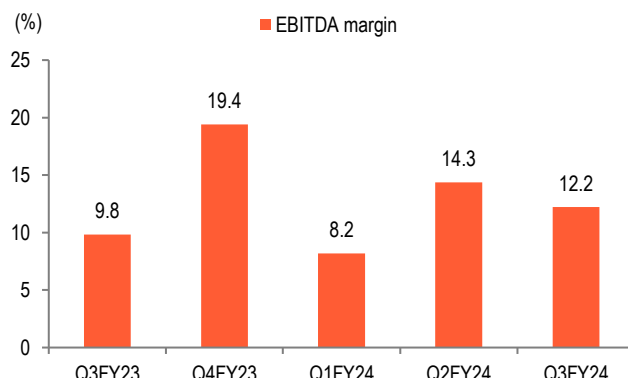
- **Demand:** PRINCEPI's plumbing pipe portfolio has done better than the agriculture pipe portfolio in Q3FY24, according to management. The company believes affordable resin prices may boost demand for agriculture pipes, but plumbing pipes will continue to grow at a better rate due to the revival in real estate activity over the medium term.
- **Market share:** The company has lost market share in certain products and geographies in the retail segment as a fallout of its premiumisation drive. However, it has taken corrective action by realigning prices with those of major peers in H2CY23, which management believes will help it gradually regain lost market share from Q1FY25.
- **Margin outlook:** Management has maintained its EBITDA margin guidance range of 12-14% for FY25.
- **MTM loss:** An MTM inventory loss of Rs 100mn was booked in Q3FY24.
- **B2B project:** B2B projects in metro cities are gaining traction and management also plans to penetrate tier-2 cities in the coming quarters.
- **New launches:** PRINCEPI launched a new range of sub-surface drainage pipes under the *TerraFit* brand and a new line of faucets and showers made of plastics and metal.
- **Channel inventory:** Management believe the channel inventory for plastic pipes has returned to normal due to stable and affordable resin prices.
- **Bathware:** The bathware segment clocked revenue of Rs 60mn in Q3FY24. The company spent Rs 30mn on employee and branding activities in this segment during the quarter. It has launched products in the northern and western regions and plans to enter into the southern and eastern markets in Q1FY25.
- **Working capital:** PRINCEPI expects to maintain debtor and inventory days at 60 days and 70 days respectively in future.
- **Capex:** Management has guided for capex of Rs 1.1bn-1.2bn (vs. Rs 0.8bn-1bn earlier) and Rs 0.9bn-1bn for debottlenecking and maintenance over FY24 and FY25 respectively (excludes Bihar project). With an increase in project scope from 40ktpa to ~50ktpa to include a range of fittings, the cost of the Bihar greenfield unit has risen from Rs 1.5bn to Rs 2.2bn. Of this, ~Rs 400mn is planned to be spent in FY24 and the remainder in FY25, with project completion expected by Q4FY25.

Fig 3 – PRINCPIP's volumes fell 2.4% YoY due to a high base, but grew 8.2% on 4Y CAGR basis in Q3FY24



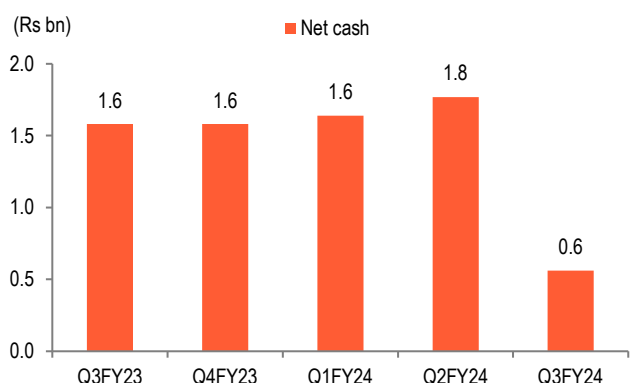
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin contracted 210bps QoQ to 12.2% on MTM inventory loss of Rs 100mn



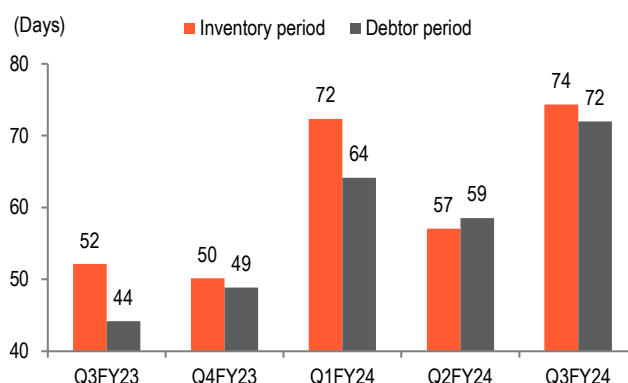
Source: Company, BOBCAPS Research

Fig 5 – Net cash position has fallen from Rs 1.8bn in Sep'23 to Rs 0.6bn in Dec'23...



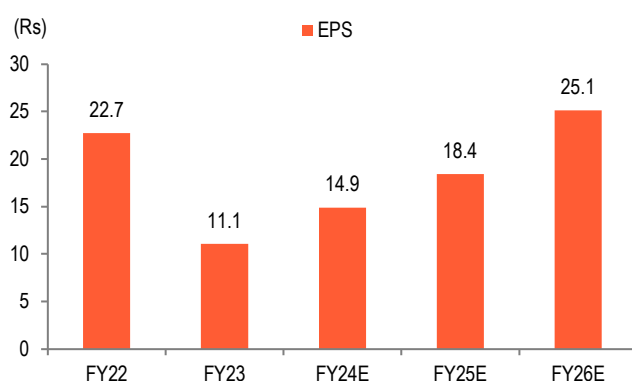
Source: Company, BOBCAPS Research

Fig 6 – ...due to a sharp QoQ increase in debtor days (from 59 to 72) and inventory days (from 57 to 74)



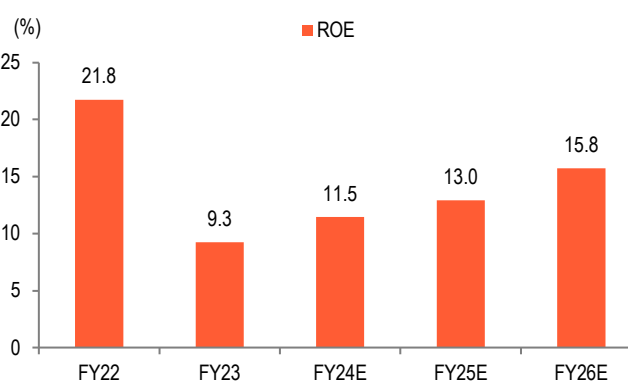
Source: Company, BOBCAPS Research

Fig 7 – PRINCPIP's EPS is forecast to grow at a tepid 3% CAGR over FY23-FY26E



Source: Company, BOBCAPS Research

Fig 8 – ROE is projected to decline from 21.8% in FY22 to 15.8% in FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We reduce our TP to Rs 650 (from Rs 800) as we downgrade our EPS estimates by 19%/24%/17% for FY24/FY25/FY26 in the wake of a lacklustre Q3FY24 print. We now model for a muted 3% EPS CAGR over FY23-FY26 and maintain our HOLD rating on the stock due to the tepid earnings growth profile coupled with expensive valuations.

The stock is trading at 37.2x one-year forward P/E vs. its five-year average of 32.6x. Our target P/E multiple remains at 30x on Sep'25E EPS, which is in line with the stock's historical multiple. For a detailed sector and stock view, see our report of 17 January:

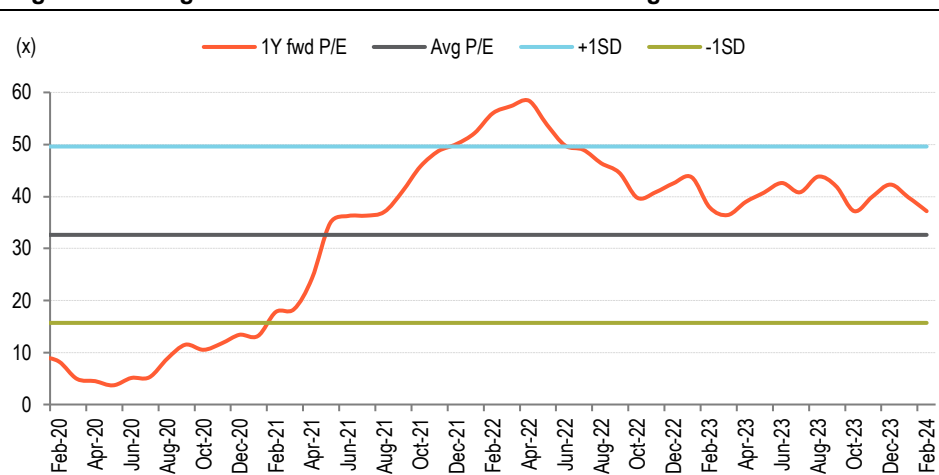
[Strong foundations.](#)

Fig 9 – Revised estimates

Standalone (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Operating income	25,354	28,773	33,717	27,284	31,455	36,052	(7.1)	(8.5)	(6.5)
EBITDA	3,106	3,681	4,788	3,603	4,539	5,548	(13.8)	(18.9)	(13.7)
EBITDA Margin (%)	12.2	12.8	14.2	13.2	14.4	15.4	(96bps)	(164bps)	(119bps)
Adjusted PAT	1,645	2,036	2,777	2,032	2,686	3,324	(19.1)	(24.2)	(16.5)
EPS (Rs)	14.9	18.4	25.1	18.4	24.3	30.1	(19.1)	(24.2)	(16.5)

Source: BOBCAPS Research

Fig 10 – Trading at 37.2x on 1Y forward P/E vs. 5Y average of 32.6x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales Volume growth (%)	4.1	0.5	13.4	7.8	14.0	13.8
Realisation growth (%)	21.6	27.6	(10.1)	(13.3)	(0.5)	3.0
EBITDA per unit (Rs/kg)	26.6	30.1	16.0	18.3	19.0	21.7
Pre-tax ROIC (%)	37.3	32.5	13.4	18.0	19.3	22.4

Source: Company, BOBCAPS Research

Key risks

- Market share gains in plastic pipes and a sharp improvement in return ratios would be key upside risks to our estimates.
- Increased exposure to group companies and significant cost/time overruns in the Bihar greenfield project are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	663	600	SELL
Astral	ASTRA IN	6.2	1,889	2,000	HOLD
Century Plyboards	CPBI IN	2.0	734	700	HOLD
Cera Sanitaryware	CRS IN	1.3	8,220	8,100	HOLD
Finolex Industries	FNXP IN	1.7	221	230	HOLD
Greenlam Industries	GRLM IN	0.8	530	500	HOLD
Greenpanel Industries	GREENP IN	0.6	381	400	HOLD
Greenply Industries	MTLM IN	0.4	240	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	468	700	BUY
Kajaria Ceramics	KJC IN	2.5	1,299	1,400	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	674	650	HOLD
Somany Ceramics	SOMC IN	0.4	735	900	BUY
Supreme Industries	SI IN	6.4	4,149	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 6 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	26,568	27,109	25,354	28,773	33,717
EBITDA	4,188	2,517	3,106	3,681	4,788
Depreciation	703	830	904	988	1,106
EBIT	3,485	1,687	2,202	2,692	3,682
Net interest inc./.(exp.)	(139)	(110)	(80)	(113)	(113)
Other inc./.(exp.)	55	86	142	142	142
Exceptional items	32	14	0	0	0
EBT	3,369	1,648	2,264	2,721	3,711
Income taxes	875	434	619	685	934
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,494	1,214	1,645	2,036	2,777
Adjustments	18	9	0	0	0
Adjusted net profit	2,512	1,223	1,645	2,036	2,777

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	3,986	3,202	3,144	3,568	4,181
Other current liabilities	980	794	794	794	794
Provisions	22	20	19	22	26
Debt funds	1,500	581	544	617	723
Other liabilities	250	305	305	305	305
Equity capital	1,106	1,106	1,106	1,106	1,106
Reserves & surplus	11,547	12,534	13,847	15,386	17,610
Shareholders' fund	12,653	13,640	14,953	16,491	18,715
Total liab. and equities	19,390	18,542	19,759	21,798	24,745
Cash and cash eq.	687	2,161	2,647	1,728	1,525
Accounts receivables	4,346	4,150	3,882	4,405	5,162
Inventories	6,188	4,256	4,472	5,055	5,924
Other current assets	1,046	684	672	762	892
Investments	17	3	3	3	3
Net fixed assets	6,415	6,750	7,546	9,307	10,701
CWIP	226	190	190	190	190
Intangible assets	41	101	101	101	101
Deferred tax assets, net	0	0	0	0	0
Other assets	425	246	246	246	246
Total assets	19,390	18,542	19,759	21,798	24,745

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	(185)	3,645	2,494	2,226	2,715
Capital expenditures	(1,680)	(1,000)	(1,700)	(2,750)	(2,500)
Change in investments	(2)	14	0	0	0
Other investing cash flows	22	72	142	142	142
Cash flow from investing	(1)	(19)	0	0	0
Equities issued/Others	5	0	0	0	0
Debt raised/repaid	648	(919)	(38)	73	106
Interest expenses	(139)	(110)	(80)	(113)	(113)
Dividends paid	(387)	0	(332)	(498)	(553)
Other financing cash flows	105	(227)	0	0	0
Cash flow from financing	233	(1,256)	(449)	(537)	(560)
Chg in cash & cash eq.	47	2,370	2,045	1,689	2,155
Closing cash & cash eq.	687	2,161	2,647	1,728	1,525

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	22.6	11.0	14.9	18.4	25.1
Adjusted EPS	22.7	11.1	14.9	18.4	25.1
Dividend per share	3.5	0.0	3.0	4.5	5.0
Book value per share	114.4	123.4	135.2	149.2	169.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.8	2.8	3.0	2.7	2.3
EV/EBITDA	17.9	29.7	24.1	20.7	15.9
Adjusted P/E	29.6	60.9	45.3	36.6	26.8
P/BV	5.9	5.5	5.0	4.5	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.6	74.2	72.7	74.8	74.8
Interest burden (PBT/EBIT)	96.7	97.7	102.8	101.1	100.8
EBIT margin (EBIT/Revenue)	13.1	6.2	8.7	9.4	10.9
Asset turnover (Rev./Avg TA)	137.0	146.2	128.3	132.0	136.3
Leverage (Avg TA/Avg Equity)	1.7	1.4	1.4	1.4	1.4
Adjusted ROAE	21.8	9.3	11.5	13.0	15.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	28.3	2.0	(6.5)	13.5	17.2
EBITDA	13.9	(39.9)	23.4	18.5	30.1
Adjusted EPS	10.4	(51.3)	34.5	23.8	36.4

Profitability & Return ratios (%)

EBITDA margin	15.8	9.3	12.2	12.8	14.2
EBIT margin	13.1	6.2	8.7	9.4	10.9
Adjusted profit margin	9.5	4.5	6.5	7.1	8.2
Adjusted ROAE	21.8	9.3	11.5	13.0	15.8
ROCE	25.0	12.5	15.1	16.6	19.7

Working capital days (days)

Receivables	60	56	56	56	56
Inventory	85	57	64	64	64
Payables	55	43	45	45	45

Ratios (x)

Gross asset turnover	3.3	2.8	2.3	2.2	2.1
Current ratio	1.9	2.4	2.6	2.4	2.4
Net interest coverage ratio	25.1	15.3	27.6	23.8	32.6
Adjusted debt/equity	0.1	(0.1)	(0.1)	(0.1)	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

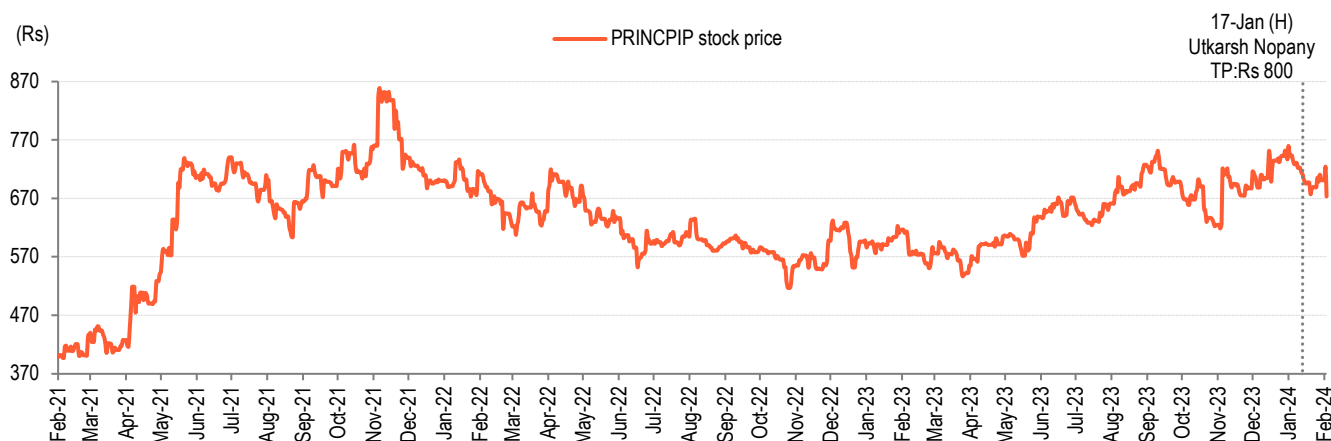
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): PRINCE PIPES & FITTINGS (PRINCIPI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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