

18 May 2024

India | Equity Research | Q4FY24 results review

Prince Pipes & Fittings

Plastic

Healthy volume growth but lower EBITDA/kg; volume outlook remains healthy

Prince Pipes and Fittings (PRINCIPI) reported Q4FY24 pipe volume growth of 16.1% YoY (3-year CAGR of 7.3%), but revenue declined 3.2% YoY as realisation fell 16.6% YoY. EBITDA/kg grew just 1.1% QoQ to INR 17.9/kg (-46.4% YoY on a high base) due to adverse product mix and price corrections taken. EBITDA margin increased 23bps QoQ to 12.5% (-694bps YoY), resulting in EBITDA/APAT growth of 21.9%/45.1% QoQ, respectively. Management stated demand was strong across all segments (agri, plumbing and infra) and has guided for ~15% pipe volume growth (driven by healthy real estate demand) and operating margin of 12-14% in the medium term. We broadly maintain our EBITDA estimates for FY25/26E but downgrade the stock to **ADD** (from Buy) due to run-up of ~13% in the share price over the past 3 months, with an unchanged Mar'25E target price of INR 723, set at 30x PER FY26E.

Healthy volume growth of 16.1% YoY

PRINCIPI posted Q4FY24 pipe volume growth of 16.1% YoY (+20.6% QoQ; 3-year CAGR of 7.3%), while revenue declined 3.2% YoY (+19.6% QoQ) as realisation fell 16.6% YoY (-0.8% QoQ) due to adverse product mix and some corrective price action. Management stated volume growth was healthy across plumbing, infrastructure with good demand from agri (momentum also continues in Q1FY25). It has guided for 15% volume CAGR in the medium term driven by healthy demand across all segments on affordable PVC price and continued uptick in real estate market. Bathware segment (launched in Jun'23) had revenue of ~INR 30-40mn in Q4 and management expects this segment to breakeven in 12-18 months. NWC was 95 days (+38 days YoY) in Q4, primarily due to debtor days (+27 days YoY; partly due to higher sales in the month of Mar'24). Management expects debtor days to come down to 50-60days by H1FY25 end. The company remained net debt free in FY24.

Marginal increase in EBITDA/kg

EBITDA/kg improved just 1.1% QoQ to INR 17.9 (-46.4% YoY on high base), due to adverse product mix (higher agri sales) and some corrective pricing action taken to maintain competitiveness. EBITDA margin increased 23bps QoQ to 12.5% (-694bps YoY) due to lower employee/other cost (-90bps/15bps QoQ), while RM cost grew 81bps QoQ, resulting in EBITDA/APAT growth of 21.9%/45.1% QoQ, respectively. Management has guided for OPM of 12-14% over medium term. We have modelled pipe OPM of 13.4% for FY25-26E each.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	27,109	25,687	30,593	34,958
EBITDA	2,517	3,074	3,992	4,555
EBITDA %	9.3	12.0	13.1	13.0
Net Profit	1,199	1,691	2,307	2,665
EPS (INR)	10.8	15.3	20.9	24.1
EPS % Chg YoY	(52.2)	41.1	36.4	15.5
P/E (x)	61.7	43.7	32.0	27.7
EV/EBITDA (x)	28.7	24.0	18.1	15.4
RoCE (%)	8.6	10.1	12.6	12.9
RoE (%)	9.1	11.6	14.0	14.2

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Market Data

Market Cap (INR)	74bn
Market Cap (USD)	887mn
Bloomberg Code	PRINCIPI IN
Reuters Code	PRCE BO
52-week Range (INR)	776 /505
Free Float (%)	38.0
ADTV-3M (mn) (USD)	1.4

Price Performance (%)	3m	6m	12m
Absolute	12.5	(3.8)	13.7
Relative to Sensex	10.4	(16.1)	(6.4)

Earnings Revisions (%)	FY25E	FY26E
Revenue	4.3	4.9
EBITDA	(0.1)	1.1
EPS	(3.4)	0.0

Previous Reports

22-03-2024: [Company Update](#)

06-02-2024: [Q3FY24 results review](#)

Valuation and views

PRINCPIP positively surprised on volumes, but its operational profitability in Q4FY24 was below expectations. We continue to like PRINCPIP as we expect it to see demand tailwinds from plumbing, infra and agri industries with improved profitability going forward. However, we downgrade the stock to **ADD** from Buy due to stock price run-up of ~13% over the last 3 months, with an unchanged Mar'25E target price of INR 723, set at 30x Mar'26E PER.

Exhibit 1: Q4FY24 result review

INR mn	Q4FY24	Q4FY23	YoY(%)	Q3FY24	QoQ(%)	FY24	FY23	YoY(%)
Total revenues	7,401	7,644	(3.2%)	6,186	19.6%	25,687	27,109	(5.2%)
Raw Materials	5,224	5,121	2.0%	4,316	21.0%	18,193	20,922	(13.0%)
% of sales	70.6%	67.0%	359 bps	69.8%	81 bps	70.8%	77.2%	-635 bps
Employee expense	379	309	22.8%	373	1.8%	1,477	1,161	27.3%
% of sales	5.1%	4.0%	108 bps	6.0%	-90 bps	5.7%	4.3%	147 bps
Other expense	876	731	19.8%	741	18.2%	2,943	2,523	16.7%
% of sales	11.8%	9.6%	227 bps	12.0%	-15 bps	11.5%	9.3%	215 bps
Total expenditure	6,479	6,161	5.2%	5,430	19.3%	22,613	24,606	(8.1%)
% of sales	87.5%	80.6%	694 bps	87.8%	-23 bps	88.0%	90.8%	-273 bps
EBIDTA	923	1,483	(37.8%)	757	21.9%	3,074	2,503	22.8%
% of sales	12.5%	19.4%	-694 bps	12.2%	23 bps	12.0%	9.2%	273 bps
Depreciation	239	211	13.1%	229	4.4%	912	830	9.8%
EBIT	684	1,272	(46.3%)	527	29.6%	2,162	1,673	29.3%
EBIT Margin (%)	9.2%	16.6%	-741 bps	8.5%	71 bps	8.4%	6.2%	225 bps
Interest Expenses	14	28	(52.1%)	27	(50.1%)	65	110	(41.0%)
Other income	53	34	55.8%	30	76.7%	161	86	88.2%
PBT	723	1,278	(43.4%)	530	36.3%	2,258	1,648	37.0%
Income Tax Expense	177	337	(47.5%)	154	14.8%	612	436	40.3%
Extraordinary Items	0	0	nm	-0	(100.0%)	178	2	10325.7%
Reported PAT	546	941	(41.9%)	376	45.2%	1,825	1,214	50.3%
APAT	546	941	(41.9%)	377	45.1%	1,691	1,213	39.4%

Source: I-Sec research, Company data

Exhibit 2: Q4FY24 key operating metrics

	Q4FY24	Q4FY23	YoY(%)	Q3FY24	QoQ(%)	FY24	FY23	YoY(%)
Sales Volume (MT)	51,444	44,317	16.1%	42,665	20.6%	1,72,793	1,57,717	9.6%
Realisation (Rs/kg)	144	172	(16.6%)	145	(0.8%)	149	172	(13.5%)
Rep. EBITDA-per-unit (Rs/kg)	17.9	33.5	(46.4%)	17.7	1.1%	17.8	15.9	12.1%
Adj. EBITDA-per-unit (Rs/kg)	17.9	27.8	(35.6%)	20.1	(10.7%)	17.8	23.5	(24.2%)

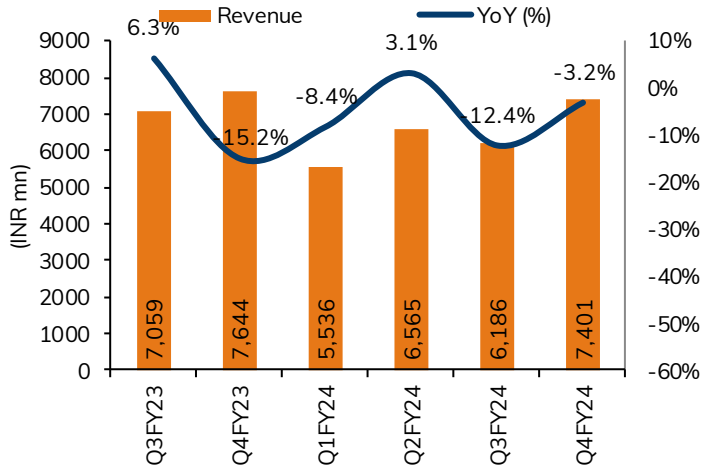
Cash Conversion Cycle								
Debtor (Days)	83	56	27 days	73	10 days	83	56	27 days
Inventory (Days)	62	57	5 days	75	-13 days	62	57	5 days
Creditor (Days)	50	56	-6 days	79	-29 days	50	56	-6 days
Working Capital (Days)	95	57	38 days	69	26 days	95	57	38 days

Source: I-Sec research, Company data

Key takeaways from Q4FY24 earnings conference call

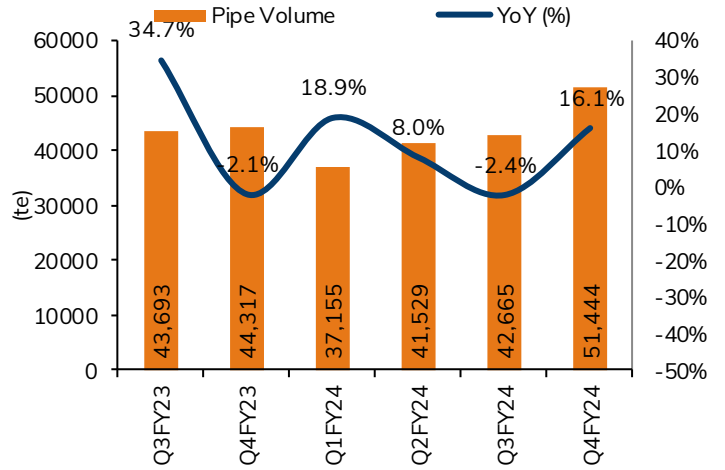
- **Demand:** Management stated demand remains healthy across segments of plumbing, infra and agri. The company recorded 16.1% YoY volume growth driven by corrective pricing action, strengthening distribution network and higher brand equity. New launches in real estate grew at a healthy rate and will be a sustainable demand driver over medium term. Also, PVC prices are likely to be stable and thus maintain good traction in agri segment as well.
- **Bathware segment:** It recorded sales of INR 30-40mn in Q4 and INR 100mn in FY24 with A&P and employee expense of INR 40mn each in FY24. Management expects higher A&P expense going forward. The company currently has distribution in North and West regions and plans to become a pan-India player by expanding distribution in East and South regions in the next 2 quarters.
- **Guidance:** Management has guided for pipes volume CAGR of 15% over the next couple of years with a sustainable margin of 12-14%. For bathware segment, it expects EBITDA breakeven in 12-18 months.
- **RM prices:** PVC prices were stable in Q4 and are likely to remain range bound going forward. CPVC prices saw a 3-5% decline in Q4FY24.
- **Working capital:** Mar'24 saw good demand pull from the market, which resulted in higher receivables, hence, working capital cycle appears bloated. But management stated there was healthy collection in Q1 and debtor days should be streamlined going forward. Management expects debtor days to come down to 50-60 days soon.
- **Channel finance:** Currently, 146 distributors are in channel finance programme. Channel financing limit was INR 1.5bn in Q4 (of which INR 1bn was utilised) vs INR 1.23bn in Q3FY24 (of which INR 0.75bn was utilised).
- **Capacity expansion:** 48,000te is the new expected capacity for Bihar plant which may be operational in Q4FY25. The company will launch water tanks from Chennai facility in Q1FY25. It has also planned a water tank capacity of 6mn litres/month from this facility. Management indicated Telangana, Jaipur and Bihar plants also have additional land if capacity expansion is required in future.
- **Capex:** In FY25, management has planned capex of INR 0.8-1bn for bathware plant in Gujarat and routine capex at existing facilities only (Bihar capex is over and above this amount). For Bihar, out of INR 2.2bn planned, INR 0.7-0.8bn has already been spent in FY24 (including INR 0.28bn for acquisition of land). In FY25, management plans INR 70-100mn for debottlenecking in Aquel plant in Gujarat (which will unlock a revenue potential of INR 1-1.2bn from this plant).
- A&P expenses amounted to ~INR 640mn in FY24.
- Management stated broad sales mix was 65% for plumbing, 30% for agri, 4% for infra and 1% for water storage in FY24.

Exhibit 3: Quarterly revenue



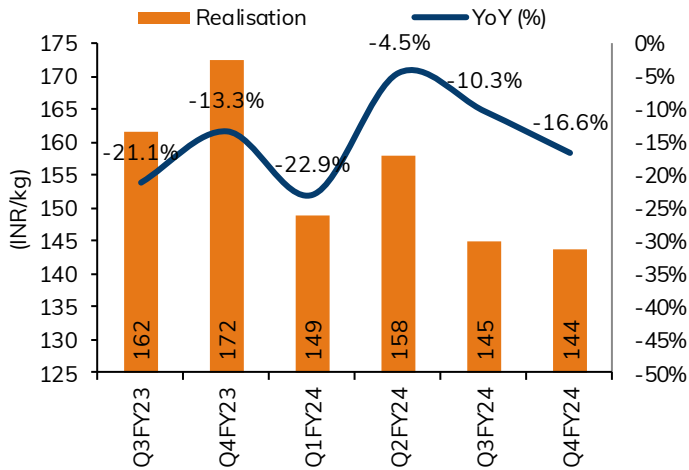
Source: I-Sec research, Company data

Exhibit 4: Quarterly volume



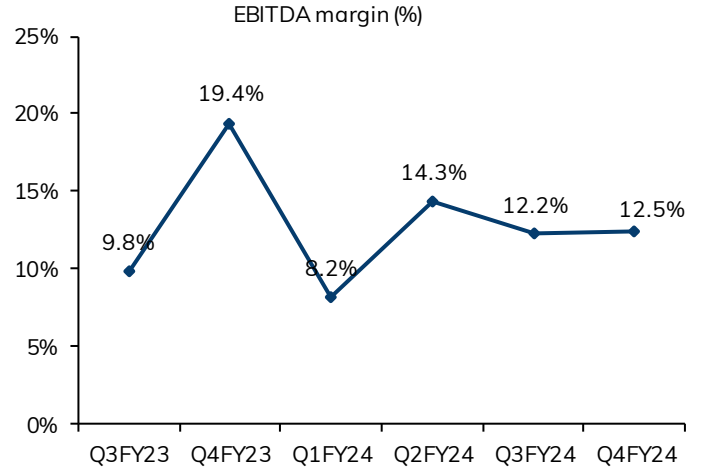
Source: I-Sec research, Company data

Exhibit 5: Quarterly realisation



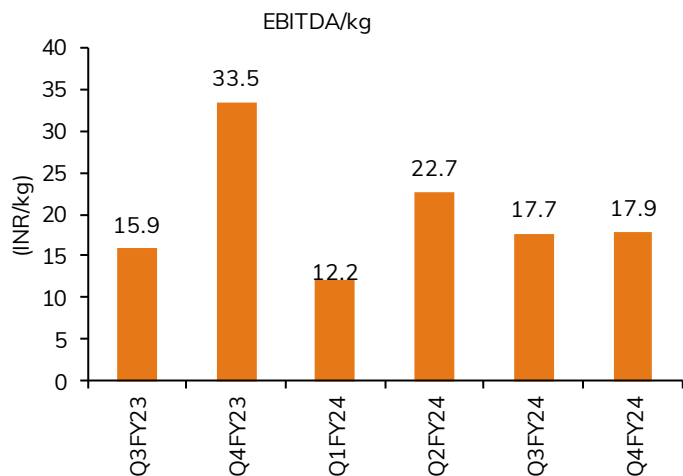
Source: I-Sec research, Company data

Exhibit 6: Quarterly EBITDA margin



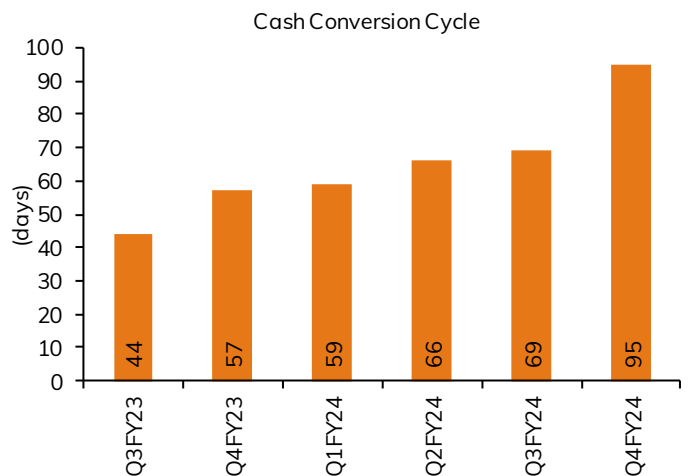
Source: I-Sec research, Company data

Exhibit 7: Quarterly reported EBITDA per unit



Source: I-Sec research, Company data

Exhibit 8: Quarterly cash conversion cycle



Source: I-Sec research, Company data

Valuation

PRINCEPIP is one of the major pipe players in the 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 has a secure CPVC supply (via Lubrizol), which may enable it to benefit from the growing preference for organised players. Downgrade to **ADD** (from Buy) with Mar'25 target price of INR 723, set at an unchanged 30x Mar'26E P/E.

Key downside risks

- **Slowdown in housing market:** Any unexpected demand slowdown in housing market may adversely affect growth in pipe segment.
- **Sharp fall in PVC resin prices:** A sharp and sudden fallen in PVC resin prices may adversely affect the profitability of the company.
- **Resurgence of pandemic:** Any resurgence of covid pandemic may dampen demand and negatively impact the company's operational performance.
- **Adverse product mix:** Any change in the product mix away from CPVC/plumbing segment could adversely affect profitability.

Exhibit 1: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	60.9	60.9	60.9
Institutional investors	23.6	24.1	23.7
MFs and others	15.8	15.8	15.6
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.2	0.6
FIIIs	7.7	8.1	7.5
Others	15.5	15.0	15.4

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	27,109	25,687	30,593	34,958
Operating Expenses	24,592	22,613	26,600	30,403
EBITDA	2,517	3,074	3,992	4,555
EBITDA Margin (%)	9.3	12.0	13.1	13.0
Depreciation & Amortization	830	912	1,006	1,121
EBIT	1,687	2,162	2,986	3,434
Interest expenditure	110	65	88	103
Other Non-operating Income	52	161	185	232
Recurring PBT	1,629	2,258	3,084	3,562
Less: Taxes	(436)	(612)	(777)	(898)
PAT	1,193	1,647	2,307	2,665
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	21	178	-	-
Net Income (Reported)	1,214	1,825	2,307	2,665
Net Income (Adjusted)	1,199	1,691	2,307	2,665

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Assets				
Inventories	4,256	4,379	5,029	5,664
Cash & cash eqv.	2,140	1,156	2,575	4,609
Sundry Debtors	4,150	5,849	4,610	5,268
Other Current Assets	1,696	1,516	1,760	1,915
Trade payables	3,202	2,491	3,373	3,850
Other Current Liabilities	1,681	1,810	2,020	2,306
Net Current Assets	7,361	8,599	8,581	11,300
Investments	3	3	3	3
Net Fixed Assets	6,940	8,089	10,083	9,662
Other Non Current Assets	101	240	240	240
Total Assets	14,405	16,931	18,907	21,205
Liabilities				
Borrowings	581	1,144	1,044	944
Other Non Current Liabilities	184	343	343	343
Total Liabilities	765	1,487	1,387	1,287
Equity Share Capital	1,106	1,106	1,106	1,106
Reserves & Surplus	12,534	14,338	16,414	18,813
Total Net Worth	13,640	15,444	17,520	19,918
Minority Interest	-	-	-	-
Total Liabilities & Net Worth	14,405	16,931	18,907	21,205

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	5,536	6,565	6,186	7,401
% growth (YOY)	-8.4	3.1	-12.4	-3.2
EBITDA	453	942	757	923
Margin %	8.2	14.3	12.2	12.5
Other Income	38	40	30	53
Extraordinaries	-	179	-0	0
Adjusted Net Profit	196	570	377	546

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,747	569	4,749	3,100
Working Capital Changes	1,689	(2,222)	1,437	(685)
Capital Commitments	(1,159)	(2,093)	(3,000)	(700)
Free Cashflow	2,588	(1,525)	1,749	2,400
Other investing cashflow	14	-	-	-
Cashflow from Investing Activities	(1,145)	(2,093)	(3,000)	(700)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(919)	563	(100)	(100)
Dividend paid	-	(111)	(231)	(266)
Others	(230)	88	0	0
Cash flow from Financing Activities	(1,149)	541	(331)	(366)
Chg. in Cash & Bank balance	1,453	(984)	1,419	2,034
Closing cash & balance	2,140	1,156	2,575	4,609

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	11.0	16.5	20.9	24.1
Adjusted EPS (Diluted)	10.8	15.3	20.9	24.1
Cash EPS	18.4	23.5	30.0	34.2
Dividend per share (DPS)	-	1.0	2.1	2.4
Book Value per share (BV)	123.4	139.7	158.5	180.2
Dividend Payout (%)	-	6.5	10.0	10.0
Growth (%)				
Net Sales	2.0	(5.2)	19.1	14.3
EBITDA	(39.9)	22.1	29.9	14.1
EPS (INR)	(52.2)	41.1	36.4	15.5
Valuation Ratios (x)				
P/E	61.7	43.7	32.0	27.7
P/CEPS	36.4	28.4	22.3	19.5
P/BV	5.4	4.8	4.2	3.7
EV / EBITDA	28.7	24.0	18.1	15.4
EV / Sales	2.7	2.9	2.4	2.0
Dividend Yield (%)	-	0.1	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	22.8	29.2	29.4	29.5
EBITDA Margins (%)	9.3	12.0	13.1	13.0
Effective Tax Rate (%)	26.8	27.1	25.2	25.2
Net Profit Margins (%)	4.4	6.6	7.5	7.6
NWC / Total Assets (%)	27.1	35.1	24.7	24.5
Net Debt / Equity (x)	(0.1)	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.6)	0.0	(0.4)	(0.8)
Profitability Ratios				
RoCE (%) (post-tax)	8.6	10.1	12.6	12.9
RoE (%)	9.1	11.6	14.0	14.2
Cash Conversion Cycle (on net sales)				
Inventory Days	57	62	60	59
Receivables Days	56	83	55	55
Payables Days	43	35	40	40

Source Company data, I-Sec research

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