

PRINCE PIPES

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	669
12 month price target (INR)	830
52 Week High/Low	776/505
Market cap (INR bn/USD bn)	74/0.9
Free float (%)	36.8
Avg. daily value traded (INR mn)	115.3

SHAREHOLDING PATTERN

	Mar-23	Dec-22	Sep-22
Promoter	60.94%	62.94%	62.94%
FII	6.25%	4.41%	3.98%
DII	15.74%	15.46%	14.58%
Pledge	0%	0%	0%

FINANCIALS

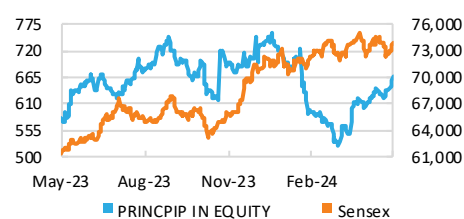
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	25,687	30,554	35,762	41,392
EBITDA	3,074	3,912	4,692	5,413
Adjusted profit	1,646	2,286	2,781	3,323
Diluted EPS (INR)	14.9	20.7	25.2	30.1
EPS growth (%)	35.8	38.9	21.7	19.5
RoAE (%)	11.3	13.9	14.9	15.5
P/E (x)	44.7	32.2	26.4	22.1
EV/EBITDA (x)	23.0	17.5	14.2	11.8
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E
Revenue	30,554	35,762	4%	5%
EBITDA	3,912	4,692	1%	1%
Adjusted profit	2,286	2,781	2%	2%
Diluted EPS (INR)	20.7	25.2	2%	2%

PRICE PERFORMANCE



Finally, recouping market share

PPFL posted a healthy Q4FY24 with volume growing 16% YoY (estimate: 12% YoY); realisation fell 17% YoY (estimate: 19% drop) and margin rose 30bp QoQ to 12.5% (estimate: 12.9%). Recently revised pricing strategy helped recoup some market share. PPFL expects demand growth momentum to sustain given higher infra spending and robust real estate push. Factoring in demand, management guided for a conservative 15% volume growth and 12–14% EBITDA margin.

Taking cognisance of Q4FY24, we are edging up FY25E/26E EPS by 2%/2%. Given strong earnings and a huge valuation gap between leading players and PPFL, we are raising the target PE from 30x to 33x. Retain 'BUY' with a TP of INR830 (earlier INR737) on FY26E EPS.

Volumes coming out of the woods

Volume grew 16% YoY, beating our estimate of 12%. The dip in realisation was restricted at 17% YoY led by product mix uptick as PVC prices fell sharply by 16% YoY and the company gave discounts/introduced additional price cuts amid high competitive intensity. Furthermore, capacity addition in East by Q4FY25 shall open up a new geography for growth. Moreover, demand momentum from real estate, agriculture, and infrastructure implies growth impetus for the company. Hence, management conservatively guided for volume growth of 15% YoY in FY25.

Margins largely along expected lines; guidance maintained

EBITDA margin at 12.5% (down 690bp YoY/up 30bp QoQ) fell slightly short of our/consensus estimate of 13%/14% mainly due to losses in bathware and on account of steep price cuts in order to protect market share. EBITDA/kg for the quarter stood at INR18. In fact, the company focussed on product mix improvement, which restricted realisation drop during the quarter. On last year's high base (due to inventory gains), PPFL posted an EBITDA fall of 38% YoY. Nevertheless, the company continues to guide for an EBITDA margin of 12–14%.

High stakes in bathware (Aquel); capacity expansion on track

PPFL recorded a top line of INR40mn in bathware along with expenses of INR95mn. It continues to focus on branding and distribution, along with expansion, expecting to break even in four–six quarters. With an enhanced capex of INR2.2bn at the Bihar plant, it shall include 48K MTPA of pipes & fittings and 72mn litres of water tanks. The company is also focusing on ramping up the Aquel brand by expanding manpower and branding cost, and launching it pan-India.

Financials

Year to March	Q4FY24	Q4FY23	% Change	Q3FY24	% Change
Net Revenue	7,401	7,644	(3.2)	6,186	19.6
EBITDA	923	1,483	(37.8)	757	22.0
Adjusted Profit	547	941	(41.9)	376	45.2
Diluted EPS (INR)	4.9	8.5	(41.9)	3.4	45.2

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	25,687	30,554	35,762	41,392
Gross profit	7,494	8,799	10,264	11,755
Employee costs	1,477	1,654	1,853	2,038
Other expenses	2,943	3,233	3,719	4,305
EBITDA	3,074	3,912	4,692	5,413
Depreciation	912	972	1,145	1,185
Less: Interest expense	65	73	47	26
Add: Other income	161	180	209	230
Profit before tax	2,258	3,048	3,709	4,431
Prov for tax	612	762	927	1,108
Less: Other adj	0	0	0	0
Reported profit	1,646	2,286	2,781	3,323
Less: Excp.item (net)	0	0	0	0
Adjusted profit	1,646	2,286	2,781	3,323
Diluted shares o/s	111	111	111	111
Adjusted diluted EPS	14.9	20.7	25.2	30.1
DPS (INR)	0	0	0	0
Tax rate (%)	27.1	25.0	25.0	25.0

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Volume Growth (%)	9.6	17.0	16.0	15.0
Realisation Growth	(13.5)	1.7	0.9	0.6
Capex (INR mn)	1,872.6	2,750.0	600.0	600.0
EBITDA margin (%)	12.0	12.8	13.1	13.1
Net profit margin (%)	6.4	7.5	7.8	8.0
Revenue growth (% YoY)	(5.2)	18.9	17.0	15.7
EBITDA growth (% YoY)	22.8	27.3	19.9	15.4
Adj. profit growth (%)	35.8	38.9	21.7	19.5

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.5	6.5	6.5	6.5
Repo rate (%)	5.3	5.3	5.3	5.3
USD/INR (average)	75.0	75.0	75.0	75.0
Gross margins	29.2	28.8	28.7	28.4
EBITDA/MT	17,431.7	19,155.7	20,047.1	0
Depre % of gross block	6.9	6.3	6.7	6.7
Interest % of debt	7.5	7.5	7.5	7.5

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	44.7	32.2	26.4	22.1
Price/BV (x)	4.8	4.2	3.7	3.2
EV/EBITDA (x)	23.0	17.5	14.2	11.8
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	1,106	1,106	1,106	1,106
Reserves	14,338	16,348	18,853	21,900
Shareholders funds	15,444	17,454	19,959	23,006
Minority interest	0	0	0	0
Borrowings	1,144	797	462	235
Trade payables	2,491	3,874	4,541	5,278
Other liabs & prov	1,876	1,876	1,876	1,876
Total liabilities	21,232	24,278	27,114	30,671
Net block	7,888	9,667	9,121	8,536
Intangible assets	87	87	87	87
Capital WIP	354	354	354	354
Total fixed assets	8,329	10,108	9,562	8,977
Non current inv	382	382	382	382
Cash/cash equivalent	777	2,481	4,186	6,496
Sundry debtors	5,849	5,023	5,879	6,804
Loans & advances	0	0	0	0
Other assets	5,460	5,849	6,670	7,577
Total assets	21,232	24,278	27,114	30,671

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	1,646	2,286	2,781	3,323
Add: Depreciation	912	972	1,145	1,185
Interest (net of tax)	44	49	32	18
Others	(4,423)	3,663	(2,005)	(2,182)
Less: Changes in WC	(2,151)	1,820	(1,010)	(1,095)
Operating cash flow	329	5,150	2,964	3,439
Less: Capex	(1,845)	(2,750)	(600)	(600)
Free cash flow	(1,517)	2,400	2,364	2,839

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	11.3	13.9	14.9	15.5
RoCE (%)	15.1	17.9	19.4	20.4
Inventory days	87	77	74	74
Receivable days	71	65	56	56
Payable days	57	53	60	60
Working cap (% sales)	27.8	17.4	17.7	17.9
Gross debt/equity (x)	0.1	0	0	0
Net debt/equity (x)	0	(0.1)	(0.2)	(0.3)
Interest coverage (x)	33.3	40.4	75.1	161.8

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	35.8	38.9	21.7	19.5
RoE (%)	11.3	13.9	14.9	15.5
EBITDA growth (%)	22.8	27.3	19.9	15.4
Payout ratio (%)	0	0	0	0

Q4FY24 conference call: Key highlights

Opening remarks

- Improved performance after successfully navigating adverse impact on volume due to ERP implementation earlier this year.
- Volumes stood at 51,444MT with a revenue of INR7.4bn, EBITDA margins were 12.5%.
- Construction of Begusarai plant is on course.
- Fittings capacity planned of phase 2 has been advanced.
- Plants at Jaipur and Telangana have significant land bank.
- Water tanks segment is progressing well, and plans afoot for a Chennai launch.
- 60,00,000 litres per month in Bihar to start by Q4FY25— capacity for water tanks.
- Capex for Bihar increased to INR2.20bn with capacity to be expanded to 48,000MT.

Industry:

- Housing sales create a new peak in Q1FY24
- India residential market is noticing an upsurge of demand in the top 7 cities.
- Indian real estate sector is projected to reach 1.3 trillion USD by FY34. ByFY47 expected to reach 5.47 trillion. Current market size stands at 300 Bn USD

Demand outlook

- Election impact
 - More of an impact on infra, this is only a small part of the company's portfolio.

Volume growth

- Real estate with continue to do well, commodity prices are expected to be range-bound for the next few months, a good monsoon will also help in the agricultural side, 15% volume growth with 12.5% margins are attainable.

Guidance

- Volume: 15%
- EBITDA margins: 12-14%

Market share

- Don't expect to lose market share in FY25.

Bathware

- Sales:
 - Q4: INR30-40mn
 - FY24: INR100mn

- Employee expenses:
 - FY24: INR45mn
- Ad expense
 - FY24: INR40mn
- Other expenses
 - FY24: INR10mn
- Another 12–18 months to break even at EBITDA level.

Aquel

- Asset purchase: INR 550 million in 2 tranches for the brand and facility in BHUJ. Will need additional INR 70-100 million capex for maintenance. Other investment will be manpower and branding cost (being decided).
- By H2, the company will be available throughout India unlike earlier being available only in north and west.

PVC

- A lot of PVC manufacturers are not making a lot profit. Current prices are not sustainable and could see a slight uptick. But this should not affect affordability of the category.
- PVC resin supplies in India: won't be seeing any significant capacity additions, will take another 2-3 years.

Capital expenditure:

- Majority capex on fixed assets: INR2bn (FY24)
 - Bihar : INR280mn
 - Ruby: INR370mn
 - ERP: INR80mn
 - Replacement: INR1bn
 - Replacement capex: INR1bn
- Usual maintenance capex is at INR600–700mn levels.
- Capex should be between INR800mn-1bn for FY25 (doesn't include Begusarai and second tranche of Aquel).
- INR 80-100 million in BHUJ for unlocking potential worth 1bn-1.2bn in the faucets segment in Bhuj
- Bihar capex till date: 700-800 mn already done (land is 270 mn, rest is infra).

Pricing differential

- Pricing differential is very low, at par with the market and competitive across the product portfolio.

Channel financing

- In Q4, most traction happened in March, which has resulted in dues in the year end. IN the last 45 days, the company has done good collection from the market. Receivables have come back to 4.50-4.60 Bn levels.
- In terms of credit policy, the company is working on tightening the credit days.
- Channel financing sanction limit:
 - Q4FY24: INR1.5bn
 - Q3FY24: INR1.23bn
- In terms of utilizations:
 - FY24: INR1bn
 - FY23: INR750mn
- Creditor days is beyond the company's control, but the company is working on improving its creditor days.
- Term loan has been availed for the new facility at Begusarai.
- Increase in WC is due to the company's normal requirement.

CPVC

- Price corrections were 3–5%, in line with industry.
- CPVC prices should be subdued as local capacities come in across regions. India is currently heavily dependent on imports.
- These price drops will be passed on to the market.
- Don't charge a premium on CPVC.
- Top 4 players enjoy a 70% market share.
- Users are brand conscious in this segment and it is used for hot and cold applications.

Inventory losses:

- No inventory loss for Q4.

Miscellaneous:

- For Q4:
 - Growth has been because the company has seen strong volumes across plumbing, agriculture and infrastructure segments. This brings in the confidence that such growth will continue.
 - Growth has been similar across CPVC and PVC and HDPE has seen better growth due to a lower base.
- Price correction for pipes and fittings is done in Q4 reflected in realizations. This has resulted in better volume growth and lower EBITDA/kg.

- Business breakup:
 - Plumbing and SWR is about 65%
 - Agri: 30%
 - Infra: 4%
 - Water tanks:1%
- Multiple factors affect margins:
 - Demand
 - Product mix (with some segments being more profitable)
 - Operating leverage

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q4FY24	Q4FY23	% change	Q3FY24	% change
Revenues	7,401	7,644	(3.2)	6,186	19.6
Raw material	5,224	5,121	2.0	4,316	21.0
Staff costs	379	309	22.8	373	1.8
Others	876	731	19.8	741	18.2
Total expenditure	6,479	6,161	5.2	5,430	19.3
EBITDA	923	1,483	(37.8)	757	22.0
Depreciation	239	211	13.1	229	4.4
EBIT	684	1,272	(46.3)	527	29.6
Less: Interest Expense	14	28	(52.1)	27	(50.1)
Add: Other income	53	34	55.8	30	76.7
Profit Before Tax	723	1,278	(43.4)	530	36.4
Less: Provision for Tax	177	337	(47.5)	154	14.7
Add: Exceptional items	0	0		0	
Reported Profit	547	941	(41.9)	376	
Adjusted net profit	547	941	(41.9)	376	45.2
No. of Diluted shares outstanding (mn)	110	110		110	
Adjusted Diluted EPS	5.0	8.6	(41.9)	3.4	45.2
P/E (x)					
EV/EBITDA (x)					
ROE(%)					
As % of net revenues					
Raw material	70.6	67.0		69.8	
Staff expenses	5.1	4.0		6.0	
Other expenses	11.8	9.6		12.0	
EBITDA	12.5	19.4		12.2	
Net profit	7.4	12.3		6.1	

Source: Company, Nuvama Research

Company Description

PPFL is one of the leading polymer pipes and fittings manufacturers in India in terms of the number of distributors. The company markets its products under two brand names—Prince Piping Systems and Trubore. It has more than 30 years of experience in manufacturing polymer pipes and 20 plus years of experience in manufacturing fittings. Currently, PPFL manufactures polymer pipes and fittings using four different polymers—UPVC, CPVC, PPR and PP. As at March 31, 2023, the company had a product range of more than 7,500 SKUs used for varied applications in plumbing, irrigation and sewage disposal. It currently sells products to distributors, who then resell them to wholesalers, retailers and consumers.

Investment Theme

PPFL—a leading player in fast-growing plastic pipes industry (12-14% CAGR)—has reaped benefit of demand shift to organised players. Underpinned by a comprehensive product range, presence across segments (agri, infra, plumbing) and pan-India brand & distribution, it has clocked 27%, 15% and 19% revenue, EBITDA and PAT CAGR, respectively, over FY18-23— one of the highest in industry. PPFL is well placed to outpace industry riding capacity and geographical expansion.

Key Risks

- Sustained slowdown in residential and non-residential construction activity in India
- Slowdown in agriculture sector
- Raw material prices volatility can impact profitability

Additional Data

Management

Chairman and MD	Jayant S. Chheda
ED & Promoter	Parag J. Chheda
ED & Promoter	Vipul J. Chheda
CFO	Shyam Sharda
Auditor	N.A Shah Associates LLP

Holdings – Top 10*

	% Holding	% Holding
Mirae asset	10.10	UTI AMC 0.52
DSP	3.34	Dimensional fun 0.41
Norges bank	2.37	FundRock manage 0.26
Aditya Birla AM	1.61	Alquity investm 0.20
Oman India join	1.53	Tata AMC 0.19

*Latest public data

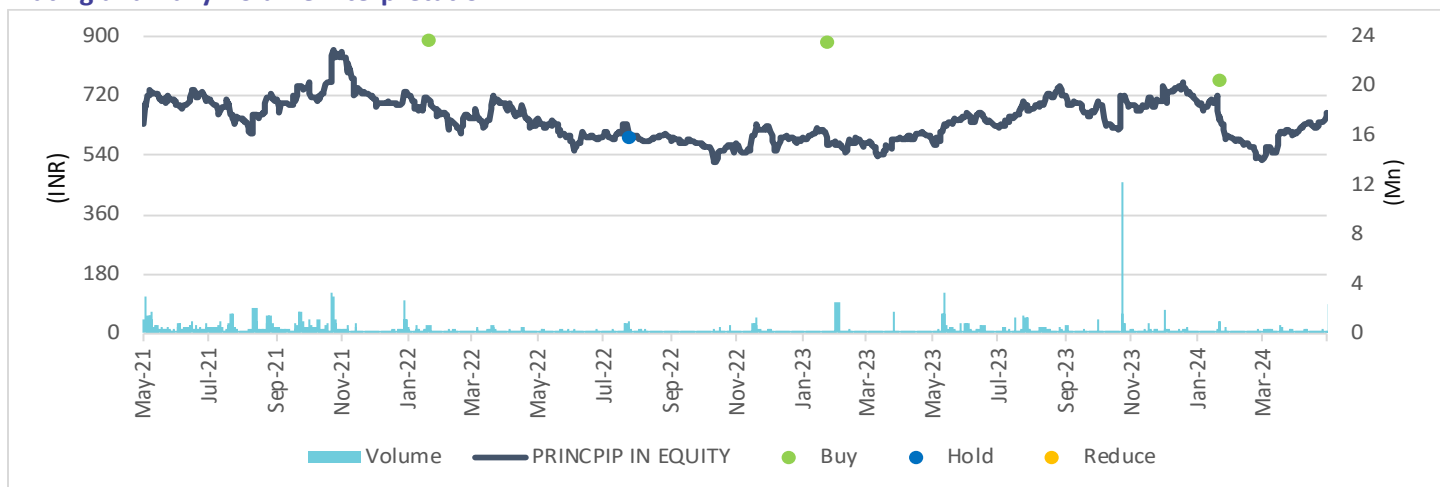
Recent Company Research

Date	Title	Price	Reco
01-Apr-24	Strong focus on volumes ; <i>Company Update</i>	549	Buy
21-Mar-24	Small bathware acquisition; pipes still ; <i>Company Update</i>	530	Buy
06-Feb-24	Market share loss continues; <i>Result Update</i>	670	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
15-May-24	Somany Ceramics	Glaze intact in weak environment; <i>Result Update</i>
13-May-24	APL Apollo	Delayed ramp-up hurting growth; <i>Result Update</i>
09-May-24	Venus Pipes	Margin expands; exports in focus; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	214
Hold	<15% and >-5%	61
Reduce	<-5%	22

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