

July 11, 2023

MANAGEMENT MEET | Sector: Building Materials

Prince Pipes & Fittings Ltd

Expect healthy growth, maintain ADD!

We interacted with the management of Prince Pipes & Fittings Ltd to understand the on-going demand trends, update on recent launch of sanitaryware & faucets & impact of transition to global ERP system & following are the key highlights:

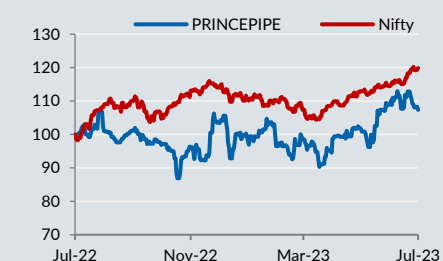
- Challenges in migrating to global ERP system impacted company's operations for first half in Q1FY24.
- Management expects real estate demand will continue for next 3-4 years, that will drive growth for plumbing products.
- Management expects, Eastern part of India will continue to be a major growth driver for Indian Pipe Industry in coming years.
- West & North contribute ~60% Revenue while East & South contribute ~40% revenue for the company.
- PVC prices have corrected by Rs 6-8/Kg in Q1FY24.
- Channel inventory continues to remain at ~20-25 days.
- CPVC contributes ~20-25% of revenue & Fittings contribute ~30-35% of topline.
- Company got the possession of land in Bihar & will start construction in Q3FY23. This plant will cater to demand in East. Earlier, Haridwar plant and some outsourced capacities were catering to demand in East, now this new plant will reduce freight cost and improve efficiency for the company. Company will incur capex of ~Rs1.5Bn & same will be operational from Q4FY25.
- Overall capex for FY24 will be Rs750-800Mn for east plant & Rs800-850Mn for regular capex.
- On 22nd June, 2023, Company has launched its new collection of faucets and sanitaryware. Company is focusing on showcasing its unique European inspired bathware range and creating its market in North and Western India. Company will tap Eastern and Southern market over next 6-12 months.
- Company has recently appointed Mr. Harsh Kumar, to drive the Sanitaryware & Faucet segment. Mr. Harsh Kumar has an experience of over 22 years. He has spent a large part of his career, with over 15 years at Jaquar.
- Initially company plans to work on outsourced model for both sanitaryware and faucet. Later, company plans to establish a unit for manufacturing of faucet.
- Prince Pipes will leverage its existing distribution network to expand its bathware biz. Company surveyed its top 200 dealers, out of which 45-50% dealers already cater to bathware segment.
- Company has estimated to spend Rs80-100Mn on advertisement for bathware segment and Rs50-60Mn on manpower cost for FY24.
- Overall Advertisement spends for FY24 would be ~2% of revenue.
- Company will continue to launch innovative products that will find new applications and replace GI pipes.

Reco	: ADD
CMP	: Rs 638
Target Price	: Rs 733
Potential Upside	: +15%

Stock data (as on July 11, 2023)

Nifty	19,439
52 Week h/l (Rs)	696 / 510
Market cap (Rs/USD mn)	71212 / 863
Outstanding Shares (mn)	111
6m Avg t/o (Rs mn):	119
Div yield (%):	-
Bloomberg code:	PRNCPIP IN
NSE code:	PRINCEPIPE

Stock performance



	1M	3M	1Y
Absolute return	-1.5%	8.8%	8.5%

Shareholding pattern (As of Mar'23 end)

Promoter	60.9%
FII+DII	22.0%
Others	17.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	733	705

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	19.7	24.4
EPS (Old)	16.9	23.5
% change	16%	4%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	27,107	31,173	35,849
YoY Growth	2.0	15.0	15.0
EBIDTA	2,505	3,809	4,589
EBIDTA(%)	9.2	12.2	12.8
PAT	1,217	2,176	2,700
YoY Growth	(51.2)	78.9	24.1
ROE	9.3	15.0	16.3
EPS	11.0	19.7	24.4
P/E	54.6	32.4	26.1
BV/Share	123.4	139.6	160.5
P/BV	4.9	4.6	4.0

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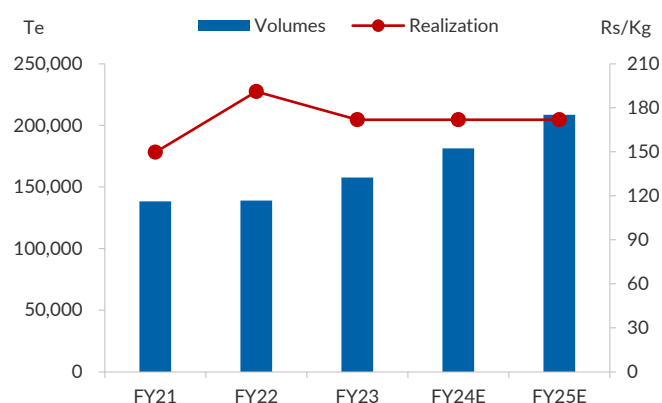
Prince Pipes & Fittings Ltd

Our view:

- Though Q1FY24 will be impacted due to company's transition to ERP system, we reckon the buoyance in demand will enable Prince Pipes to make-up for the lost sales. We reckon, strong demand from plumbing segment & shift in demand towards branded products should lead to healthy traction for Prince Pipes & Fittings Ltd. We believe EBITDA/Kg to come in at Rs21/Rs22 in FY24E/FY25E respectively.
- At CMP, stock trades at P/E(x) of 32x/26x on FY24E/FY25E EPS of Rs20/24 respectively. We have valued the stock at 30x on FY25E EPS & arrived at a target price of Rs733, retaining our ADD rating.

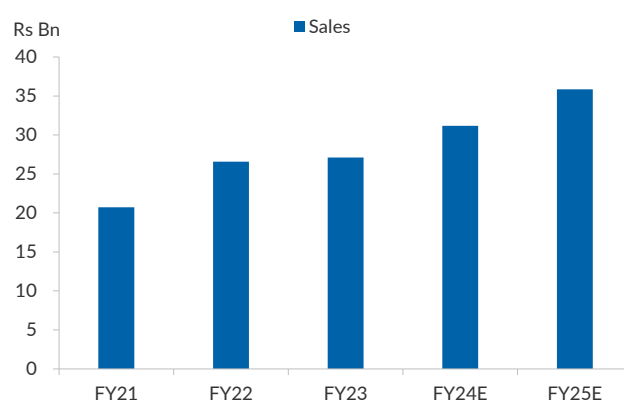
STORY IN CHARTS

Exhibit 1: Volume to grow by 15%CAGR...



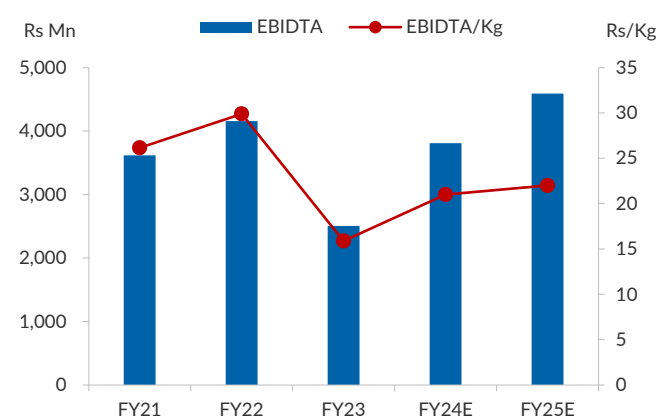
Source: Company, YES Sec

Exhibit 2: Revenue to increase by 15% CAGR...



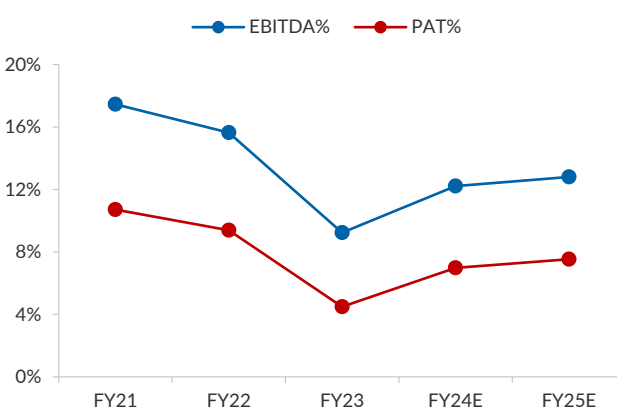
Source: Company, YES Sec

Exhibit 3: EBITDA/kg to come in at Rs22...



Source: Company, YES Sec

Exhibit 4: Margins expected to improve...



Source: Company, YES Secm

FINANCIALS

Exhibit 5: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Sales	26,568	27,107	31,173	35,849
COGS	18,915	20,920	23,337	26,856
GP	7,653	6,187	7,836	8,993
GP%	28.8	22.8	25.1	25.1
Employee	1,162	1,160	1,253	1,353
Other cost	2,335	2,522	2,774	3,051
EBITDA	4,156	2,505	3,809	4,589
EBITDA%	15.6	9.2	12.2	12.8
Finance cost	139	109	58	58
Depreciation	703	830	918	986
Other Income	55	85	69	56
PBT	3,369	1,650	2,902	3,601
Tax	875	434	725	900
PAT	2,494	1,217	2,176	2,700
PAT%	9.4	4.5	7.0	7.5
EPS	23	11	20	24

Source: Company, YES Sec

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Share Capital	1,106	1,106	1,106	1,106
Reserves	11,547	12,534	14,323	16,637
Non-current liab	255	305	274	274
Borrowings	1,500	581	581	581
Payables	3,985	3,202	3,409	3,923
Other current Liab	959	778	778	778
Total Equity & Liab	19,392	18,542	20,507	23,335
Gross Block	9,232	10,397	11,197	11,997
Acc Dep	2,817	3,647	4,565	5,550
Net Block	6,415	6,750	6,632	6,446
CWIP	225	190	990	1,690
Other Noncurrent	440	249	249	249
Inventory	6,188	4,256	5,826	6,704
Receivables	4,346	4,150	4,885	5,618
Cash & Bank	591	1,244	223	925
Loans	5	5	5	5
Total Assets	19,392	18,542	20,507	23,335

Source: Company, YES Sec

Prince Pipes & Fittings Ltd

Exhibit 7: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
PBT	3,369	1,648	2,902	3,601
Depreciation & Amortization	703	830	918	986
Finance cost	78	55	58	58
(Incr)/Decr in Working Capital	(3,531)	1,473	(2,098)	(1,097)
Taxes	(960)	(401)	(725)	(900)
Cash from ops.	(195)	3,602	1,055	2,647
(Incr)/ Decr in PP&E	(1,692)	(1,007)	(1,600)	(1,500)
Cash Flow from Investing	205	(1,481)	(1,600)	(1,500)
(Decr)/Incr in Borrowings	647	(919)	(31)	-
Finance cost	(110)	(99)	(58)	(58)
Cash Flow from Financing	221	(1,222)	(476)	(445)
Incr/(Decr) in cash	231	899	(1,021)	702
Cash and cash equivalents at beginning of year	84	316	1,244	223
Cash and cash equivalents at end of year	315	1,215	223	925

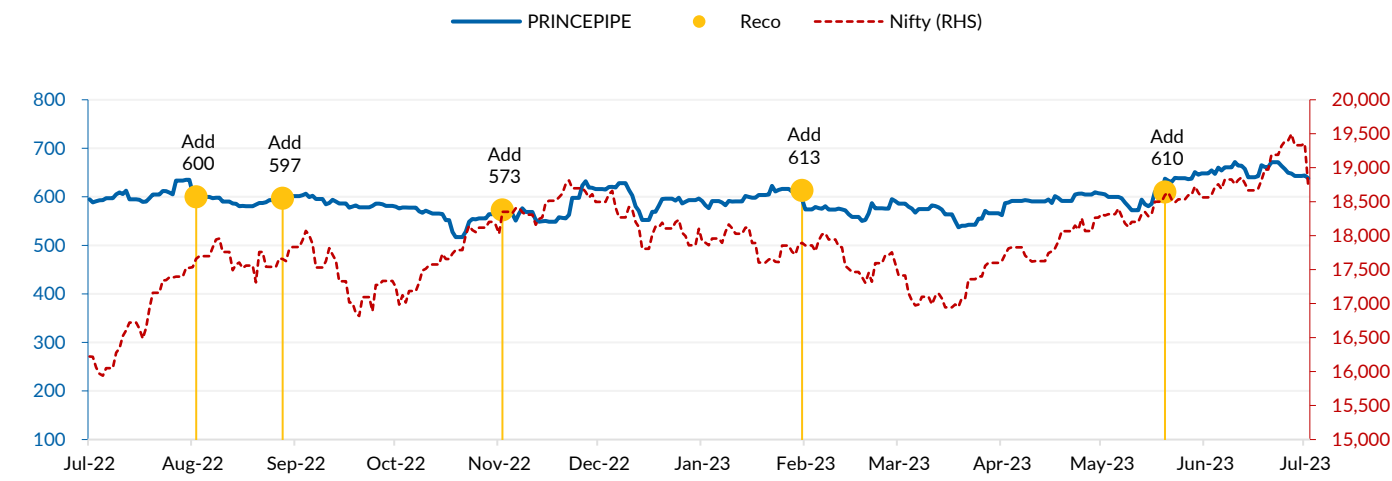
Source: Company, YES Sec

Exhibit 8: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E
Growth Matrix (%)				
Revenue growth	28.3	2.0	15.0	15.0
EBITDA growth	14.9	(39.7)	52.1	20.5
EBIT growth	9.7	(49.8)	68.2	23.6
PAT growth	12.4	(51.2)	78.9	24.1
Profitability ratios (%)				
EBITDA margin	15.6	9.2	12.2	12.8
EBIT margin	13.2	6.5	9.5	10.2
PAT margin	9.4	4.5	7.0	7.5
RoCE	29.5	13.1	20.0	21.7
RoE	21.6	9.3	15.0	16.3
Leverage ratios (x)				
Debt/Equity	0.1	0.0	0.0	0.0
Net debt/Equity	0.1	(0.0)	0.0	(0.0)
Net debt/EBITDA	0.2	(0.3)	0.1	(0.1)
Int coverage	25.2	16.1	50.9	62.9
Per share values				
EPS	22.6	11.0	19.7	24.4
CEPS	28.9	18.5	28.0	33.3
BVPS	114.4	123.4	139.6	160.5
Valuation ratios (x)				
P/E	25.4	54.6	32.4	26.1
P/CEPS	19.8	32.4	22.8	19.1
P/B	5.0	4.9	4.6	4.0
EV/EBITDA	15.5	26.2	18.6	15.3
NWC days				
Receivables	54	57	57	57
Inventory	82	91	91	91
Payables	53	53	53	53

Source: Company, YES Sec

Recommendation Tracker



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