

ICICI Securities Limited  
is the author and  
distributor of this report

Company update,  
earnings revision and  
TP change

## Plastic

Target price: Rs804

### Earnings revision

(%)	FY22E	FY23E	FY24E
Revenue	↓ 1.1	↓ 0.6	↓ 0.6
EBITDA	↓ 3.6	↓ 3.8	↓ 2.8
PAT	↓ 4.4	↓ 4.5	↓ 3.5

### Target price revision

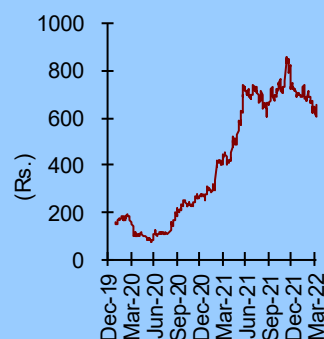
Rs804 from Rs833

### Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	63.3	63.3	62.9
Institutional investors			
MFs and others	15.5	15.3	18.6
Insurance Cos.	7.1	6.6	8.2
FIs	0.0	0.0	0.2
Others	8.4	8.7	10.2
	21.2	21.4	18.5

Source: BSE

### Price chart



### Research Analysts:

**Arun Baid**

arun.baid@icicisecurities.com  
+91 22 6807 7235

**Sohil Kaura**

sohil.kaura@icicisecurities.com  
+91 22 6807 7416

INDIA

**ICICI Securities**

# Prince Pipes and Fittings

**BUY**

**Maintain**

**Rs653**

## Bright outlook; near-term headwinds likely

We reiterate our BUY rating on Prince Pipes and Fittings (PRINPIIP) post our interaction with management and continue to believe it will be a beneficiary of growing demand for pipes, though the near-term demand environment remains tepid. Management highlighted demand for plumbing pipes remains strong in the ongoing quarter (barring covid impact in early January) but agri demand is yet to pick up. The company is hopeful of demand from agri segment (~25-30% of revenues) from 3<sup>rd</sup> week of March. Management indicated near-term margins may remain subdued due to high cost of PVC inventory carried over from Q3 and only partial pass on of increased CPVC cost in the ongoing quarter (Q4FY22). Despite near-term hiccups, PRINPIIP management expects to grow volumes at 10-15% over medium term. Also, with product mix moving towards plumbing pipes, which have a superior margin profile, management indicated structurally operating margins are on an upward trajectory over the medium term and believes 13-15% margins are sustainable. We tweak estimates for FY22-FY24E by 3-4% but maintain BUY rating with revised Mar'23E target price of Rs804 (earlier: Rs833).

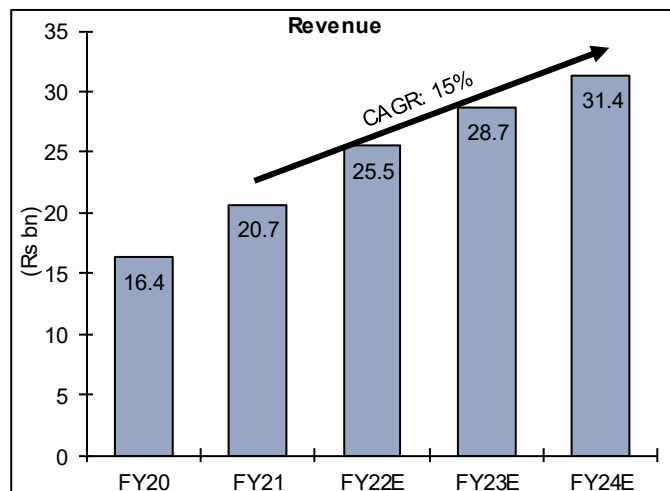
- **Pipe volumes to grow in double digit over medium term:** PRINPIIP management aims to grow pipe volumes at 10-15% CAGR over medium term aided by pick-up in housing market. The company, in order to further capture market share, has been expanding its product portfolio and distribution reach with a focus on branding. It believes post the expansion of Telangana plant by end-FY22/Q1FY23, it will be able to better cater to the southern markets due to localised presence which should enable higher volume growth going ahead. Also, enhanced focus on B2B sales will aid better volume traction going ahead. However, near-term volume growth may be tepid due to high base YoY (Q4FY21 volume growth was 25.7% YoY) and continued demand sluggishness from agri sector in peak quarter.
- **Operating margins sustainable at 13-15% in medium term:** Management indicated continued structural improvement in operating margins from historical levels going ahead due to increased contribution from the high-margin plumbing segment. The company targets to do operating margins of ~13-15% in medium term driven by better product mix. PRINPIIP's margins, however, may be impacted over the next 1-2 quarters due to higher cost of PVC inventory carried over from Q3FY22 and only partial pass on of increased CPVC cost in the ongoing quarter (Q4FY22).
- **Valuations and view:** We tweak estimates for FY22-24E by 3-4%, factoring in lower margins, but continue to like PRINPIIP for its long-term growth prospects due to comprehensive product portfolio, focus on enhancing distribution reach and emphasis on branding. Maintain **BUY** with revised Mar'23E target price of Rs804, set at 30x FY24E P/E. Key risks to our call: 1) Slowdown in housing market, 2) sharp fall in raw material prices will impact profitability.

Market Cap	Rs71.8bn/US\$940mn	Year to Mar	FY21	FY22E	FY23E	FY24E
Bloomberg	PRINPIIP IN	Revenue (Rs mn)	20,715	25,510	28,696	31,352
Shares Outstanding (mn)	110.0	EBITDA(Rs mn)	3,616	3,827	4,246	4,677
52-week Range (Rs)	859/405	Net Income (Rs mn)	2,218	2,271	2,603	2,962
Free Float (%)	37.1	EPS (Rs)	20.1	20.5	23.5	26.8
FII (%)	10.2	% Chg YoY	97.2	2.4	14.6	13.8
Daily Volume (US\$'000)	3,970	P/E (x)	32.5	31.8	27.7	24.4
Absolute Return 3m (%)	(9.6)	EV/E (x)	19.6	18.6	16.5	14.6
Absolute Return 12m (%)	51.8	Dividend Yield	0.5	0.6	0.7	0.8
Sensex Return 3m (%)	(1.7)	RoCE (%)	19.4	18.8	18.4	18.2
Sensex Return 12m (%)	14.0	RoE (%)	23.6	19.9	19.4	18.9

Please refer to important disclosures at the end of this report

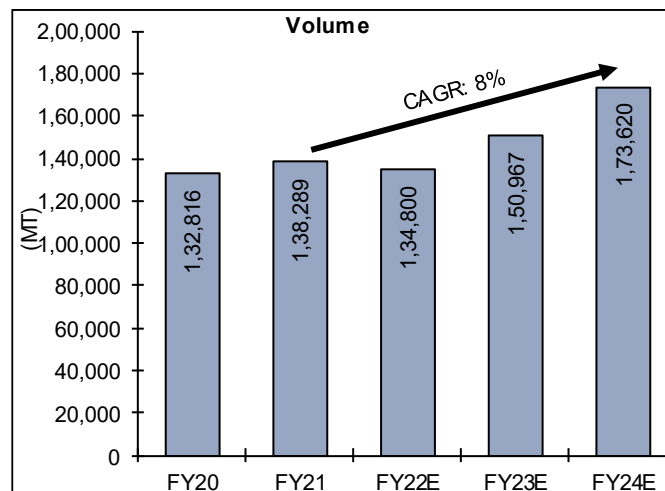
## Key charts

Chart 1: Revenue CAGR of 15% over FY21-FY24E



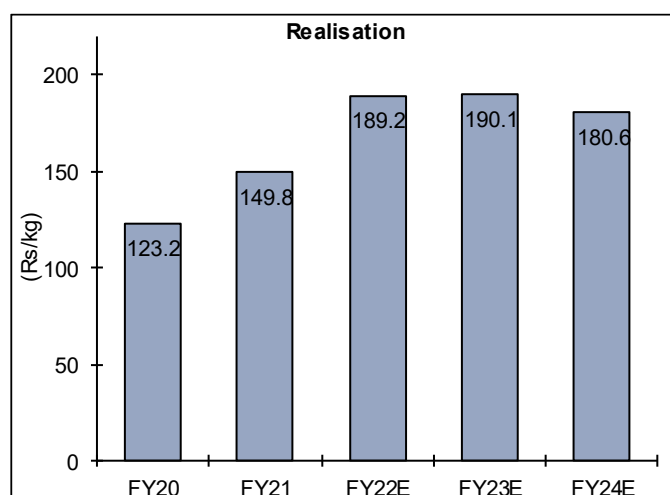
Source: Company data, I-Sec research

Chart 2: Volume CAGR of 8% over FY21-FY24E



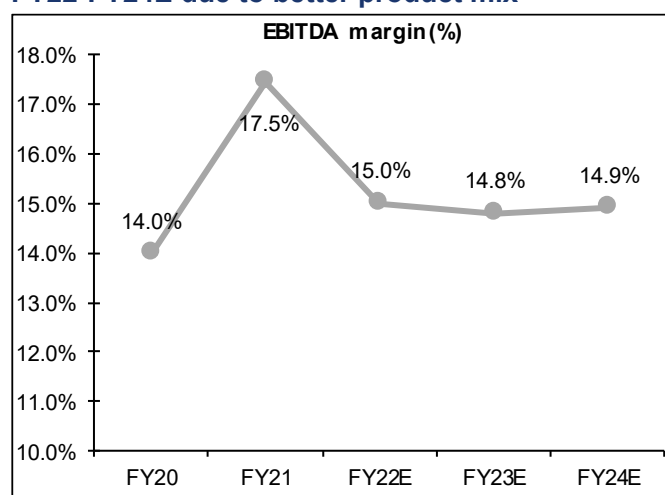
Source: Company data, I-Sec research

Chart 3: Realisation to remain elevated



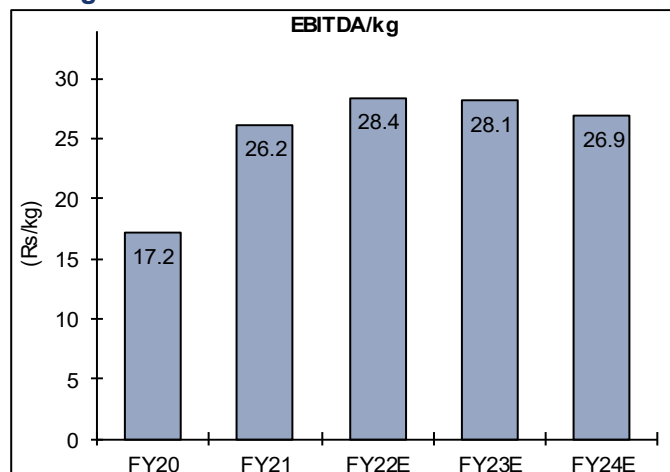
Source: Company data, I-Sec research

Chart 4: EBITDA margin to remain healthy over FY22-FY24E due to better product mix



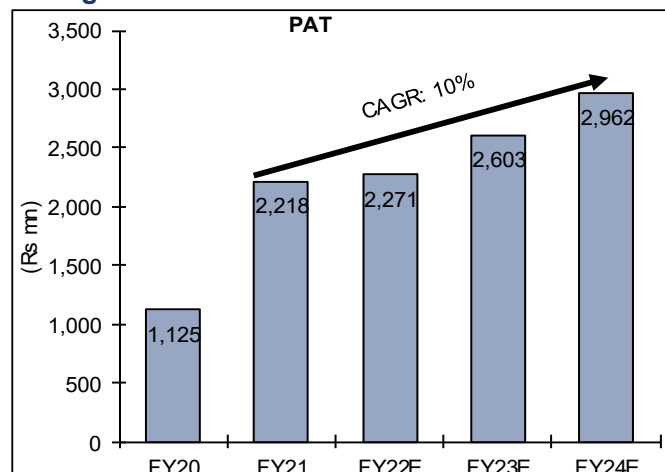
Source: Company data, I-Sec research

Chart 5: EBITDA/kg expected to remain high during FY22-FY24E

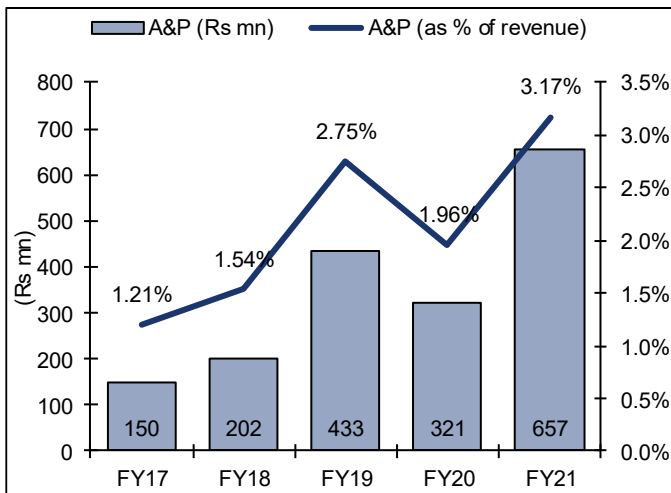


Source: Company data, I-Sec research

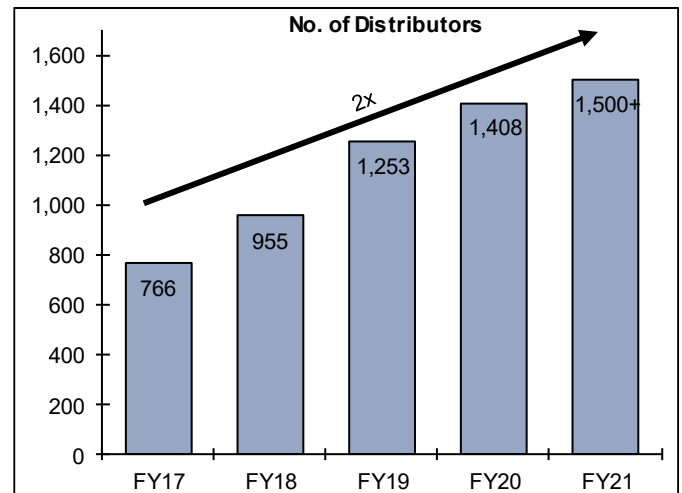
Chart 6: PAT expected to grow at 10% CAGR during FY21-FY24E



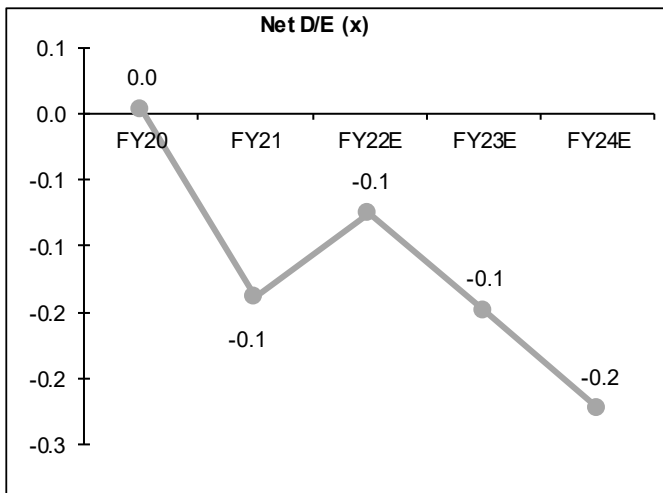
Source: Company data, I-Sec research

**Chart 7: Prince spent ~Rs1.8bn on A&P during FY17-FY21 resulting in strong branding**


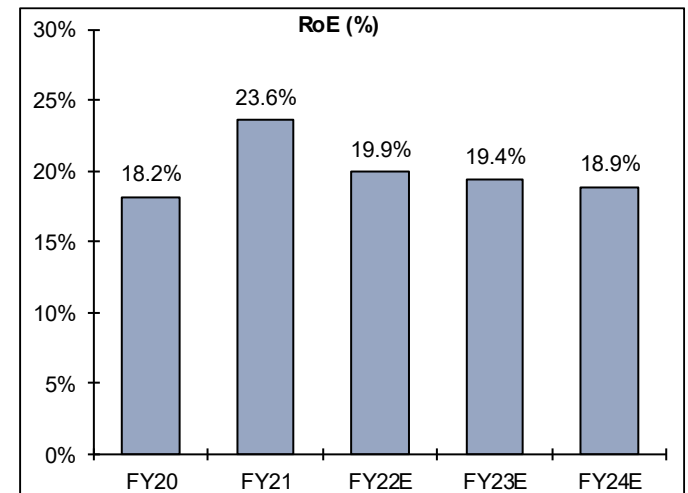
Source: Company data, I-Sec research

**Chart 8: Distributor network enhanced ~2x during FY17-21**


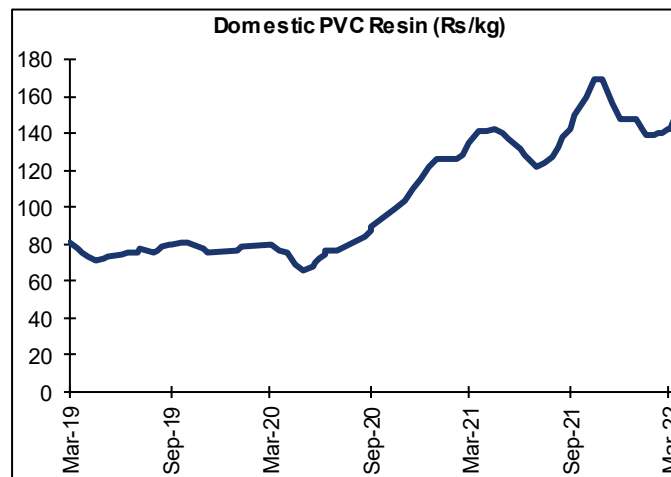
Source: Company data, I-Sec research

**Chart 9: Prince to remain net debt free**


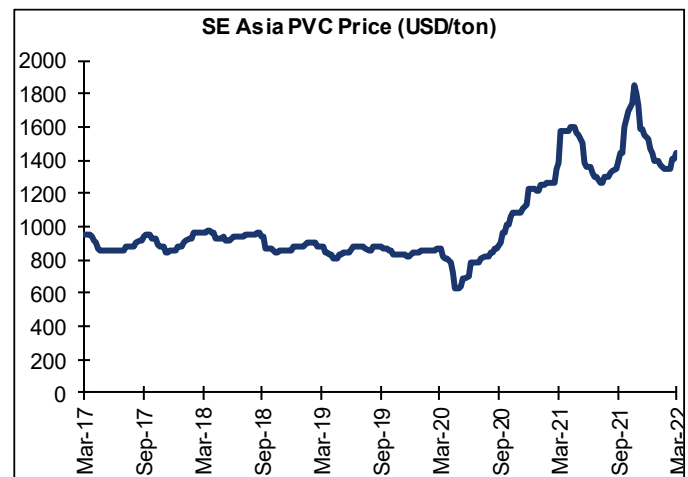
Source: Company data, I-Sec research

**Chart 10: RoE to remain high**


Source: Company data, I-Sec research

**Chart 11: Domestic PVC resin price on an uptrend**


Source: Reliance, I-Sec research

**Chart 12: Global PVC resin prices are elevated**


Source: Bloomberg, I-Sec research

**Table 1: Change in estimates**

Rs Mn	New			Previous			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	25,510	28,696	31,352	25,782	28,876	31,547	-1.1%	-0.6%	-0.6%
EBIDTA	3,827	4,246	4,677	3,970	4,412	4,811	-3.6%	-3.8%	-2.8%
PAT	2,271	2,603	2,962	2,377	2,726	3,069	-4.4%	-4.5%	-3.5%

Source: Company data, I-Sec research

## Valuations

PRINCEPIF is among the top 5 players in India's plastic piping industry. It has plants at seven locations and manufactures pipes & 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 have a secure CPVC supply (via Lubrizol), which will enable it to benefit from the growing preference for organised players.

We cut our FY22-24E by 3-4%, factoring in lower margins. PRINCEPIF is expected to witness revenue/EBITDA/PAT CAGRs of 15%/9%/10%, respectively, over FY21-FY24E with healthy return ratios (18.9% RoE in FY24E). Maintain **BUY** rating on the stock with a revised Mar'23E target price of Rs804 (earlier: Rs833), set at unchanged 30x FY24E P/E (in-line with Supreme Industries' target P/E).

## Key risks

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

## Financial summary

**Table 2: Earnings statement**
*(Rs mn, year ending March 31)*

	FY21	FY22E	FY23E	FY24E
<b>Operating Income (Sales)</b>	<b>20,715</b>	<b>25,510</b>	<b>28,696</b>	<b>31,352</b>
Operating Expenses	17,099	21,684	24,450	26,675
<b>EBITDA</b>	<b>3,616</b>	<b>3,827</b>	<b>4,246</b>	<b>4,677</b>
% margins	17.5%	15.0%	14.8%	14.9%
Depreciation & Amortisation	594	682	808	871
Interest Cost	207	132	72	48
Other Income	176	90	114	202
<b>Recurring PBT</b>	<b>2,991</b>	<b>3,103</b>	<b>3,480</b>	<b>3,960</b>
Less: Taxes	773	832	877	998
Less: Minority	-	-	-	-
Interest/Extraordinary Items	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,218</b>	<b>2,271</b>	<b>2,603</b>	<b>2,962</b>
<b>Net Income (Adjusted)</b>	<b>2,218</b>	<b>2,271</b>	<b>2,603</b>	<b>2,962</b>

Source: Company data I-Sec research estimates

**Table 3: Balance sheet**
*(Rs mn, year ending March 31)*

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	9,857	10,508	12,483	14,802
of which cash & cash eqv.	2,299	1,632	2,655	4,065
Total Current Liabilities	4,365	4,701	4,976	5,437
<b>Net Current Assets</b>	<b>5,492</b>	<b>5,807</b>	<b>7,507</b>	<b>9,365</b>
Investments	15	15	15	15
<b>Net Fixed Assets</b>	<b>5,765</b>	<b>7,233</b>	<b>7,425</b>	<b>7,754</b>
Other Assets	424	424	424	424
<b>Total Assets</b>	<b>16,061</b>	<b>18,180</b>	<b>20,346</b>	<b>22,994</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>852</b>	<b>700</b>	<b>500</b>	<b>300</b>
<b>Total Liabilities</b>	<b>5,626</b>	<b>5,810</b>	<b>5,884</b>	<b>6,146</b>
Equity Share Capital	1,100	1,106	1,106	1,106
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	9,335	11,265	13,356	15,743
<b>Net Worth</b>	<b>10,435</b>	<b>12,370</b>	<b>14,462</b>	<b>16,849</b>
Minority Interest	-	-	-	-
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>16,061</b>	<b>18,180</b>	<b>20,346</b>	<b>22,994</b>

Source: Company data I-Sec research estimates

**Table 4: Quarterly trend**

	Mar 21	June 21	Sept 21	Dec 21
Net sales	7,614	3,306	7,610	6,640
% growth (YoY)	76.7	9.3	65.9	20.9
EBITDA	1,468	413	1,227	1,111
EBITDA Margin (%)	19.3	12.5	16.1	16.7
Other income	45	22	15	17
Extraordinary Items	-	-	-	-
Net profit	972	178	761	673

Source: Company data, I-Sec research

**Table 5: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY21	FY22E	FY23E	FY24E
<b>Operating Cashflow</b>	<b>2,909</b>	<b>2,953</b>	<b>3,411</b>	<b>3,833</b>
Working Capital Changes	266	(982)	(677)	(448)
Capital Commitments	(1,307)	(2,150)	(1,000)	(1,200)
<b>Free Cash-flow</b>	<b>1,868</b>	<b>(179)</b>	<b>1,735</b>	<b>2,185</b>
<b>Cashflow from Investing Activities</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Issue of Share Capital	-	107	-	-
Inc (Dec) in Borrowings	(1,746)	(152)	(200)	(200)
Dividend paid	(385)	(443)	(512)	(575)
<b>Change in Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(271)</b>	<b>(667)</b>	<b>1,023</b>	<b>1,410</b>

Source: Company data I-Sec research estimates

**Table 6: Key ratios**
*(Year ending March 31)*

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS (Diluted Adjusted)	20.1	20.5	23.5	26.8
CEPS (Cash EPS)	25.4	26.7	30.9	34.7
Dividend per share (DPS)	3.5	4.0	4.6	5.2
Book Value per share (BV)	94.4	111.9	130.8	152.4
<b>Growth Ratios (%)</b>				
Operating Income	26.6	23.1	12.5	9.3
EBITDA	58.1	5.8	11.0	10.1
Adjusted Net Income	97.2	2.4	14.6	13.8
EPS (Diluted Adjusted)	97.2	2.4	14.6	13.8
<b>Valuation Ratios (x)</b>				
P/E	32.5	31.8	27.7	24.4
P/CEPS	25.7	24.4	21.2	18.8
P/BV	6.9	5.8	5.0	4.3
EV / EBITDA	19.6	18.6	16.5	14.6
EV / Operating Income	3.4	2.8	2.4	2.2
<b>Operating Ratios</b>				
Other Income / PBT (%)	5.9	2.9	3.3	5.1
Effective Tax Rate (%)	25.8	26.8	25.2	25.2
NWC / Total Assets (%)	25.2	26.8	26.3	24.4
Net D/E Ratio (x)	-0.1	-0.1	-0.1	-0.2
<b>Return/Profitability Ratios (%)</b>				
Adj Net Income Margins	10.7	8.9	9.1	9.4
RoCE	19.4	18.8	18.4	18.2
RoE	23.6	19.9	19.4	18.9
Dividend Yield	0.5	0.6	0.7	0.8
EBITDA Margins	17.5	15.0	14.8	14.9

Source: Company data I-Sec research estimates

*This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.*

*"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."*

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)*

**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

I/We, *Arun Baid, MBA; Sohil Kaura, M.Com (Finance)*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.