

May 26, 2023

## Q4FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	716		693	
Sales (Rs. m)	30,254	34,220	30,476	33,839
% Chng.	(0.7)	1.1		
EBITDA (Rs. m)	4,089	4,979	4,026	4,775
% Chng.	1.6	4.3		
EPS (Rs.)	22.1	28.1	20.8	25.4
% Chng.	6.4	11.0		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	26,568	27,109	30,254	34,220
EBITDA (Rs. m)	4,188	2,503	4,089	4,979
Margin (%)	15.8	9.2	13.5	14.5
PAT (Rs. m)	2,526	1,214	2,446	3,112
EPS (Rs.)	22.9	11.0	22.1	28.1
Gr. (%)	10.3	(51.9)	101.4	27.2
DPS (Rs.)	3.5	-	3.5	3.5
Yield (%)	0.6	-	0.6	0.6
RoE (%)	21.9	9.2	16.7	18.2
RoCE (%)	27.8	12.4	21.9	23.9
EV/Sales (x)	2.6	2.4	2.2	1.9
EV/EBITDA (x)	16.3	26.3	15.9	12.8
PE (x)	26.7	55.5	27.6	21.7
P/BV (x)	5.3	4.9	4.3	3.7

### Key Data PRCE.BO | PRINCIPI IN

52-W High / Low	Rs.653 / Rs.510
Sensex / Nifty	62,502 / 18,499
Market Cap	Rs.67bn/ \$ 817m
Shares Outstanding	111m
3M Avg. Daily Value	Rs.76.64m

### Shareholding Pattern (%)

Promoter's	60.94
Foreign	6.24
Domestic Institution	15.75
Public & Others	17.06
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.4	11.2	(2.4)
Relative	(2.1)	10.8	(15.3)

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# Prince Pipes and Fittings (PRINCIPI IN)

Rating: BUY | CMP: Rs610 | TP: Rs716

## Above estimates, strong margins improvement

### Quick Pointers:

- Volume decline of 2.1% YoY in Q4FY23, but grew 13.4% in FY23.
- EBITDA/kg improved to ~Rs 33.5/kg ( up ~8% YoY & Rs15.9 in Q3FY23).

**We revise our FY24/FY25 earnings estimate by 6.4%/11% to factor in a) healthy vol. growth guidance of ~12-15% given strong traction in real estate, infra and agri., b) stabilization in RM prices, which will normalize EBITDA margin (mgmt. conservatively expects EBITDA margin will be 13-15%), and c) reduction in working capital & healthy cash flow. Prince Pipes and Fittings (PRINCIPI) reported better than expected profitability, mainly with rebounding EBITDA margin to normalized levels (+19%) on account of stable input prices and focus on improving product mix. EBITDA/kg improved to Rs 33.5/kg and even after excluding inventory gain, EBITDA/kg was Rs ~29/kg; much higher than pre-COVID level.**

**We believe PRINCIPI's performance should further improve led by 1) focus on increasing capacity utilization, 2) premiumisation and 3) better FCF generation. However, Q1FY23 will be soft given its transition towards a global ERP system. We estimate FY23-25E Sales/EBITDA/PAT CAGR of 12.4%/41.0%/60.1% with volume CAGR of 12.2% and EBITDA margin of 14.5% in FY25E. We revise our TP to Rs716 (Rs693 earlier), based on 25x FY25E EPS which is discount of 10% to its historical average PE. Maintain 'BUY'.**

**Revenues decline 15.2% YoY, PAT up by 6.7% YoY:** PRINCIPI revenue came in at Rs 7.6bn (PLe: Rs 7.2bn) with decline of 15.2% YoY, due to 2.1%YoY (PLe: -1.5% YoY) decline in volume and decrease in realisation by 13.3% YoY with correction in PVC resin prices by more than 40%. Sequentially realisation up 6.8% on account of premiumisation and optimized product mix of plumbing and SWR categories. Gross margin expanded 570 bps to 33.0% YoY, which led to expansion in EBITDA margin by 380 bps YoY to 19.4% in Q4FY22 (PLe: 14.3%). However, if we exclude inventory gain of Rs250mn in Q4FY23, EBITDA margin expanded 50bps YoY to 16.1%, back to normal level with favorable product mix. PAT came at Rs 940mn (PLe: Rs 612mn) in Q4FY23. The working capital days stood at 57 days as of Mar'23 compared to 68 days in Mar'22 on the back of lower inventory days from 85 to 57days. Net cash stood at Rs 1.58bn as of Mar'23.

**Con call highlights:** 1) Mgmt. expects good vol. growth of 12-15% post Q1FY24, as April & First week of May was impacted due to transition to a global ERP system, 2) Company expects conservatively EBITDA margin will be 13-15%, 3) New product launches – HDPE pipes, drainage system, Prince OneFit in CPVC etc. will drive value added portfolio, 4) PRINCIPI migrating to new ERP system in Q1FY24, 90% of the cost has been incurred in FY23 & 70-80% of the operations have been normalized so far, 5) Capex for FY24 would be Rs1.5-1.6bn with Bihar plant expansion of Rs 750-800mn & maintenance of Rs 800-850mn, 6) Greenfield expansion in Bihar for 35KMTAP capacity with capex of Rs 1.5bn, operational by Q4FY25, 7) Bathware division launch planned towards end of Q1FY24, core team hired and vendors & wide range of products finalized, 8) Storage tank clocked Rs300mn revenue in FY23 which is expected to be double with 12-14% of operating margin, 9) Adv. expenses for Q4FY23/FY23 stood at Rs120mn/410mn, 10) Channel financing improved from Rs 450-500mn in FY22 to Rs 650-680mn, covering ~100 partners.

**Exhibit 1: Q4FY23 Result Overview: Sales decline 15.2% YoY; PAT grew by 6.7% YoY**

Y/e March (Rs mn)	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Net Sales</b>	<b>7,644</b>	<b>9,012</b>	<b>(15.2)</b>	<b>7,059</b>	<b>8.3</b>	<b>27,109</b>	<b>26,568</b>	<b>2.0</b>
<b>Expenditure</b>								
Operating & Manufacturing Expenses	5,121	6,551	(21.8)	5,483	(6.6)	20,922	18,915	10.6
<i>% of Net Sales</i>	<i>67.0</i>	<i>72.7</i>	<i>(5.7)</i>	<i>77.7</i>	<i>(10.7)</i>	<i>77.2</i>	<i>71.2</i>	<i>6.0</i>
<b>Gross Profit</b>	<b>2,523</b>	<b>2,461</b>	<b>2.5</b>	<b>1,576</b>	<b>60.1</b>	<b>6,187</b>	<b>7,653</b>	<b>(19.2)</b>
<i>% of Net Sales</i>	<i>33.0</i>	<i>27.3</i>	<i>5.7</i>	<i>22.3</i>	<i>10.7</i>	<i>22.8</i>	<i>28.8</i>	<i>(6.0)</i>
Personnel Cost	309	351	(12.0)	311	(0.7)	1,161	1,162	(0.1)
<i>% of Net Sales</i>	<i>4.0</i>	<i>3.9</i>	<i>0.1</i>	<i>4.4</i>	<i>(0.4)</i>	<i>4.3</i>	<i>4.4</i>	<i>(0.1)</i>
Other Expenses	731	705	3.6	570	28.2	2,523	2,335	8.0
<i>% of Net Sales</i>	<i>9.6</i>	<i>7.8</i>	<i>1.7</i>	<i>8.1</i>	<i>1.5</i>	<i>9.3</i>	<i>8.8</i>	<i>0.5</i>
Total Expenditure	1,040	1,056	(1.5)	881	18.0	3,684	3,497	5.3
<b>EBITDA</b>	<b>1,483</b>	<b>1,405</b>	<b>5.6</b>	<b>695</b>	<b>113.5</b>	<b>2,503</b>	<b>4,156</b>	<b>(39.8)</b>
<i>Margin (%)</i>	<i>19.4</i>	<i>15.6</i>	<i>3.8</i>	<i>9.8</i>	<i>9.6</i>	<i>9.2</i>	<i>15.6</i>	<i>(6.4)</i>
Other income	34	1		12	180.3	85	55	56.3
Depreciation	211	199	6.2	211	0.4	830	703	18.1
<b>EBIT</b>	<b>1,272</b>	<b>1,206</b>	<b>5.5</b>	<b>484</b>	<b>162.7</b>	<b>1,673</b>	<b>3,453</b>	<b>(51.5)</b>
Interest	28	40	(29.9)	16	74.6	110	139	(20.8)
<b>PBT</b>	<b>1,278</b>	<b>1,167</b>	<b>9.5</b>	<b>480</b>	<b>166.1</b>	<b>1,648</b>	<b>3,369</b>	<b>(51.1)</b>
Total Taxes	337	284	18.4	126	166.6	434	875	(50.4)
<i>ETR (%)</i>	<i>26.4</i>	<i>24.4</i>	<i>2.0</i>	<i>26.3</i>	<i>0.0</i>	<i>26.3</i>	<i>26.0</i>	<i>0.4</i>
<b>Adj. PAT</b>	<b>941</b>	<b>882</b>	<b>6.7</b>	<b>354</b>	<b>166.0</b>	<b>1,214</b>	<b>2,494</b>	<b>(51.3)</b>

Source: Company, PL

**Exhibit 2: Key operating metrics**

Particulars	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Sales Volumes (KTPA)</b>	<b>44</b>	<b>45</b>	<b>(2.1)</b>	<b>44</b>	<b>1.4</b>	<b>158</b>	<b>139</b>	<b>13.4</b>
Realization (Rs/kg)	172	199	(13.3)	162	6.8	172	191	(10.1)
EBITDA per unit (Rs/kg)	33.5	31.0	7.9	15.9	110.5	15.9	30.1	(47.3)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>26,568</b>	<b>27,109</b>	<b>30,254</b>	<b>34,220</b>
YoY gr. (%)	28.3	2.0	11.6	13.1
Cost of Goods Sold	18,915	20,922	22,033	24,830
Gross Profit	7,653	6,187	8,221	9,390
Margin (%)	28.8	22.8	27.2	27.4
Employee Cost	1,520	1,531	1,672	1,711
Other Expenses	959	1,163	1,356	1,450
<b>EBITDA</b>	<b>4,188</b>	<b>2,503</b>	<b>4,089</b>	<b>4,979</b>
YoY gr. (%)	13.9	(40.2)	63.3	21.8
Margin (%)	15.8	9.2	13.5	14.5
Depreciation and Amortization	703	830	876	934
<b>EBIT</b>	<b>3,485</b>	<b>1,673</b>	<b>3,212</b>	<b>4,045</b>
Margin (%)	13.1	6.2	10.6	11.8
Net Interest	139	110	86	86
Other Income	55	86	143	200
<b>Profit Before Tax</b>	<b>3,401</b>	<b>1,648</b>	<b>3,269</b>	<b>4,159</b>
Margin (%)	12.8	6.1	10.8	12.2
Total Tax	875	434	823	1,047
Effective tax rate (%)	25.7	26.3	25.2	25.2
<b>Profit after tax</b>	<b>2,526</b>	<b>1,214</b>	<b>2,446</b>	<b>3,112</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,526</b>	<b>1,214</b>	<b>2,446</b>	<b>3,112</b>
YoY gr. (%)	10.8	(51.9)	101.4	27.2
Margin (%)	9.5	4.5	8.1	9.1
Extra Ord. Income / (Exp)	18	(2)	-	-
<b>Reported PAT</b>	<b>2,545</b>	<b>1,213</b>	<b>2,446</b>	<b>3,112</b>
YoY gr. (%)	9.4	(52.4)	101.7	27.2
Margin (%)	9.6	4.5	8.1	9.1
Other Comprehensive Income	2	-	-	-
Total Comprehensive Income	2,547	1,213	2,446	3,112
<b>Equity Shares O/s (m)</b>	<b>111</b>	<b>111</b>	<b>111</b>	<b>111</b>
<b>EPS (Rs)</b>	<b>22.9</b>	<b>11.0</b>	<b>22.1</b>	<b>28.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>9,425</b>	<b>10,419</b>	<b>11,919</b>	<b>13,419</b>
Tangibles	9,384	10,363	11,863	13,363
Intangibles	41	56	56	56
<b>Acc: Dep / Amortization</b>	<b>2,624</b>	<b>3,454</b>	<b>4,330</b>	<b>5,264</b>
Tangibles	2,624	3,454	4,330	5,264
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,801</b>	<b>6,965</b>	<b>7,588</b>	<b>8,154</b>
Tangibles	6,760	6,909	7,532	8,098
Intangibles	41	56	56	56
Capital Work In Progress	226	236	236	236
Goodwill	-	-	-	-
Non-Current Investments	97	90	90	90
Net Deferred tax assets	(123)	(137)	(137)	(137)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	6,188	4,256	4,829	5,442
Trade receivables	4,346	4,150	4,632	5,239
Cash & Bank Balance	687	2,161	2,905	4,300
Other Current Assets	1,041	679	758	857
<b>Total Assets</b>	<b>19,390</b>	<b>18,542</b>	<b>21,042</b>	<b>24,323</b>
<b>Equity</b>				
Equity Share Capital	1,106	1,106	1,106	1,106
Other Equity	11,547	12,534	14,593	17,318
<b>Total Networkth</b>	<b>12,653</b>	<b>13,640</b>	<b>15,699</b>	<b>18,424</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	127	138	138	138
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,500	581	649	734
Trade payables	3,986	3,202	3,573	4,042
Other current liabilities	1,002	814	816	819
<b>Total Equity &amp; Liabilities</b>	<b>19,390</b>	<b>18,542</b>	<b>21,042</b>	<b>24,323</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	3,369	1,648	3,269	4,159
Add. Depreciation	703	830	876	934
Add. Interest	139	110	86	86
Less Financial Other Income	55	86	143	200
Add. Other	(22)	(86)	(143)	(200)
Op. profit before WC changes	4,188	2,503	4,089	4,979
Net Changes-WC	(3,499)	1,566	(759)	(848)
Direct tax	(875)	(434)	(823)	(1,047)
<b>Net cash from Op. activities</b>	<b>(185)</b>	<b>3,635</b>	<b>2,507</b>	<b>3,084</b>
Capital expenditures	(1,680)	(1,004)	(1,500)	(1,500)
Interest / Dividend Income	55	86	143	200
Others	(35)	14	-	-
<b>Net Cash from Invt. activities</b>	<b>(1,660)</b>	<b>(904)</b>	<b>(1,357)</b>	<b>(1,300)</b>
Issue of share cap. / premium	5	-	-	-
Debt changes	648	(919)	67	85
Dividend paid	(387)	-	(387)	(387)
Interest paid	(139)	(110)	(86)	(86)
Others	105	(227)	-	-
<b>Net cash from Fin. activities</b>	<b>233</b>	<b>(1,256)</b>	<b>(406)</b>	<b>(388)</b>
<b>Net change in cash</b>	<b>(1,612)</b>	<b>1,474</b>	<b>744</b>	<b>1,396</b>
Free Cash Flow	(1,865)	2,631	1,007	1,584

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	22.9	11.0	22.1	28.1
CEPS	29.2	18.5	30.0	36.6
BVPS	114.4	123.4	142.0	166.6
FCF	(16.9)	23.8	9.1	14.3
DPS	3.5	-	3.5	3.5
<b>Return Ratio(%)</b>				
RoCE	27.8	12.4	21.9	23.9
ROIC	21.5	10.2	19.4	22.5
RoE	21.9	9.2	16.7	18.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	90	70	71	71
<b>Valuation(x)</b>				
PER	26.7	55.5	27.6	21.7
P/B	5.3	4.9	4.3	3.7
P/CEPS	20.9	33.0	20.3	16.7
EV/EBITDA	16.3	26.3	15.9	12.8
EV/Sales	2.6	2.4	2.2	1.9
Dividend Yield (%)	0.6	-	0.6	0.6

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Revenue</b>	<b>6,041</b>	<b>6,365</b>	<b>7,059</b>	<b>7,644</b>
YoY gr. (%)	82.7	(16.4)	6.3	(15.2)
Raw Material Expenses	4,785	5,533	5,483	5,121
Gross Profit	1,256	832	1,576	2,523
Margin (%)	20.8	13.1	22.3	33.0
<b>EBITDA</b>	<b>439</b>	<b>(113)</b>	<b>695</b>	<b>1,483</b>
YoY gr. (%)	6.3	(109.2)	(37.5)	5.6
Margin (%)	7.3	(1.8)	9.8	19.4
Depreciation / Depletion	197	212	211	211
<b>EBIT</b>	<b>242</b>	<b>(325)</b>	<b>484</b>	<b>1,272</b>
Margin (%)	4.0	(5.1)	6.9	16.6
Net Interest	34	32	16	28
Other Income	12	27	12	34
<b>Profit before Tax</b>	<b>221</b>	<b>(330)</b>	<b>480</b>	<b>1,278</b>
Margin (%)	3.7	(5.2)	6.8	16.7
Total Tax	60	(89)	126	337
Effective tax rate (%)	27.3	27.0	26.3	26.4
<b>Profit after Tax</b>	<b>160</b>	<b>(241)</b>	<b>354</b>	<b>941</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>160</b>	<b>(241)</b>	<b>354</b>	<b>941</b>
YoY gr. (%)	(9.7)	(131.7)	(47.4)	6.7
Margin (%)	2.7	(3.8)	5.0	12.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>160</b>	<b>(241)</b>	<b>354</b>	<b>941</b>
YoY gr. (%)	(9.7)	(131.7)	(47.4)	6.7
Margin (%)	2.7	(3.8)	5.0	12.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>160</b>	<b>(241)</b>	<b>354</b>	<b>941</b>
Avg. Shares O/s (m)	110	111	111	111
<b>EPS (Rs)</b>	<b>1.5</b>	<b>(2.2)</b>	<b>3.2</b>	<b>8.5</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	693	574
2	01-Mar-23	BUY	693	552

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	1,830	1,687
2	Bajaj Electricals	Accumulate	1,301	1,213
3	Cera Sanitaryware	BUY	7,706	6,690
4	Crompton Greaves Consumer Electricals	BUY	371	260
5	Finolex Industries	Accumulate	194	182
6	Havells India	BUY	1,447	1,245
7	Kajaria Ceramics	Accumulate	1,264	1,185
8	KEI Industries	Hold	1,811	1,836
9	Polycab India	Hold	3,249	3,381
10	Prince Pipes and Fittings	BUY	693	574
11	Supreme Industries	BUY	3,245	2,722
12	Voltas	Hold	848	808

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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