



RESEARCH REPORT CAPTAIN PIPES LIMITED

29th Oct 2023

BSE : CAPPIPES

Sector: PVC PIPES

BSE: 538817

View - BUY

CMP : Rs. 23

TP - Rs 30

BUSINESS BACKGROUND

Incorporated in 2010, Captain Pipes Limited (CPPL) has established itself as one of the leading brands in the PVC Pipes industry with its plant at Rajkot, Gujarat. CPPL has a complete range of PVC Pipes and Fittings for application in Agriculture and Plumbing

CPPL has 1250 SKUs and supplies to around 1500 hardware shops as on date. CPPL makes Column Pipes, Pressure Pipes, Plumbing Pipes (UPVC, CPVC, SWR) & Agri Fittings, Plumbing Fittings (UPVC, CPVC, SWR)

INVESTMENT HIGHLIGHTS

Steady Operating Financial Performance in FY23 –

CPPL reported a steady set of FY23 numbers with net sales at Rs 85.50 as compared to a revenue of Rs 82.61 crs last year, with EBIDTA placed at Rs 4 crs from Rs 2.76 crs last year with PAT of Rs 1.81 crs vs PAT of Rs 5.19 crs last year.

Operating cash flows generated in FY23 totalled Rs 2.60 crs vs Rs -4.64 crs generated last year

CPPL enjoys a strong product basket for Agriculture & Plumbing Operations –

CPPL operates in 2 product segments namely Plumbing & Drainage and Agriculture applications. In the Plumbing & Drainage segment CPPL makes CPVC pipes and fittings for hot and cold water application, UPVC pipes and fittings for cold water application & SWR pipes and fittings for waste water application

For the Agriculture operations CPPL makes UPVC agriculture pipes and fittings, UPVC column pipes and HDPE pipes. CPPL sells its products through an extensive network of distributors and dealers which make our products available to retailers & currently sells at more than 1500 retail hardware shops in Gujarat

KEY DATA

FACE VALUE	Rs	1.00
DIVD YIELD %		NA
52 WK HI/LOW		36/3.5
NSE CODE		NA
BSE CODE		CAPPIPES
MARKET CAP		RS 340 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	72%
BANKS, MFs & DIIs	-	%
FII/Others	-	%
PUBLIC	-	28%

KEY FUNDAMENTALS

YE	FY23	FY24	FY25
Rev Gr%	4	20	25
EBIDTA Gr%	45	21	26
PAT Gr%	-65	46	38
EPS Gr%	-90	46	38
EPS (Rs)	0.13	0.19	0.26
ROE %	11	12	15
ROCE %	11	11	13

Pipes Sector Outlook looks promising ahead –

Plastic pipe industry has seen sharp recovery post pandemic. Organised players being well placed to handle fluctuations in PVC resin prices (main raw material) have gained significant market share. They delivered positive volume growth in the last two years, on account of healthy demand traction in real estate and construction activity, despite fluctuation in realisations.

Growth momentum of branded players is expected to continue, driven by strong underlying demand and venturing of allied products. However, margins were under pressure due to fluctuation in PVC resin prices in recent past quarters. However, with the stabilization in raw material prices, margins expected to be normalized

Polyethylene (PE), PPR, polyvinyl chloride (PVC) and chlorinated polyvinyl chloride (CPVC) resin are the key raw materials used in the plastic pipes industry; their prices are dependent on crude oil price movements and global demand-supply dynamics. These raw materials form 65-70% of plastic pipe industry sales

PVC resin – the major raw material in pipe industry, corrected to pre-pandemic level and is not expected to go down further. It increased by Rs 15/kg in Dec2022

Industry relies 50-55% of PVC resin requirement on imports from Taiwan, Japan, South Korea and China and rest from Indian manufacturer like Reliance Ind, DCM Sriram, Chemplast etc

The plastic pipe sector and branded players are expected to deliver healthy growth in next 3-5 years on account of healthy growth in real estate, increased government spending on irrigation, WSS and urban infrastructure; benefits from industry consolidation; and shift from unorganized to organized market due to geographical expansions of large organized players. Recently, global PVC resin price has come back to USD 850-900/MT. Domestic PVC resin prices were Rs 85- 90/kg vs pre-pandemic of Rs 75-80/kg. We expect the sector's earnings to bottomout in Q2/Q3FY23 and with stability in PVC resin prices, volumes are expected to improve

Demand for home building materials such as pipe & fittings, sanitaryware & faucets, ceramic and wood panel are correlated to real estate market's growth. Thus, we believe that plastic pipe sector is expected to deliver healthy growth over long-term

Key Developments –

The company has acquired six adjacent industrial plots with total area of 38054 square meters. The acquired land would be used for setting up a greenfield manufacturing facility for PVC pipes and fittings. The proposed plant which will be setup with an estimated investment of Rs 25 crores will have total capacity of 20,000 MT per annum in first phase. The plant will begin commercial production by December 2024. The total land area is more than 6 times the land of existing plant at Rajkot and thus, will be available for further expansion in future

Company has decided to allot 27,50,000 equity shares pursuant to conversion of 27,50,000 number of warrants convertible into equivalent number of equity shares to the person(s) belonging to Promoter Group on preferential basis after receipt of balance amount of 75% against each warrant towards full and final subscription amount for conversion of same into equity shares

Post Conversion of warrants, the allottees are also entitled for 55,00,000 number of bonus shares reserved for outstanding convertible warrants in the ratio of 2:1 and accordingly 55,00,000 bonus equity shares are also been allotted on 27,50,000 equity shares post conversion of warrants.

Pursuant to above said allotment of Bonus Equity Shares as well as Equity Shares allotted pursuant to conversion of warrants, the issued and paid-up Equity Share Capital of the Company stands increased to Rs.14,77,06,800/- divided into 14,77,06,800/-equity shares of face value of Re. 1/- each

Ramesh D. Khichadia will hold 18,00,000 shares after warrant conversion and bonus shares while Captain plastic Pvt Ltd will hold 64,50,000 shares after warrant conversion and bonus shares

Business Outlook & Stock Valuation –

The Captain group since its inception with Captain Polyplast Ltd in 1997 has always focused on providing best quality products and services to customers. The “Captain” brand is very well known amongst customers which plays a key role in helping Captain Pipes differentiating from competitors.

Going ahead CPPL expects its EBITDA margins to improve due to strong volume growth leading to lower fixed cost and change in mix toward profitable products like fittings. The prices for PVC and CPVC resin has also declined significantly overall last 1 year which will further be positive going ahead

Looking at CPPL’s steady financial track record, strong business domain we expect the stock to get re rated in future over the next 12-15 months with a TP of Rs 30. On bottom line we recommend to Buy CPPL around 23.

For CPPL on a rough cut basis, in FY24E, Topline is expected to touch Rs 103 crs, followed by Rs 128 crs in FY25E.

On the bottomline level we expect the company to record a PAT of Rs 2.65 crs in FY24E which is expected to bounce back to Rs 3.65 crs in FY25

Thus on a conservative basis, CPPL should record a EPS of Rs 0.19 for FY24E. For FY25E our expectation is that earnings traction for CPPL would continue to be strong wherein we expect a EPS of Rs 0.25 respectively.

The company management is confident of improving EBITDA margins in going ahead via operational efficiency and better pricing due to operating leverage benefits ahead

FINANCIALS

For the Year Ended March RsCr	FY21	FY22	FY23	FY24	FY25
Net Sales	40.24	82.61	85.50	102.60	128.25
EBIDTA	2.42	2.76	4.00	4.82	6.09
EBIDTA %	6.01	3.34	4.68	4.70	4.75
Interest	1.39	1.14	0.87	0.95	1.00
Depreciation	0.88	0.91	0.98	1.00	1.05
Non Operational Other Income	0.29	5.31	0.34	0.25	0.25
Profit Before Tax	0.44	6.03	2.49	3.12	4.29
Profit After Tax	0.28	5.19	1.81	2.65	3.65
Cash Profits	1.16	6.10	2.79	3.65	4.70
Diluted EPS (Rs)	0.07	1.25	0.13	0.19	0.26
CPS (Rs)	0.28	1.47	0.20	0.26	0.34
Equity Capital	4.16	4.16	13.95	13.95	13.95
Reserves	4.93	10.07	6.10	8.75	12.40
Borrowings	4.11	3.76	2.56	3.00	3.00
GrossBlock	14.74	16.18	16.93	18.93	20.93
Investments	0.84	0.45	3.04	3.00	3.00

Source Company our Estimates

KEY CONCERNS

Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth

Sharp rise in PVC prices can impact the company's profitability negatively