

17February2020

Prince Pipes & Fittings–BUY

CMP : Rs.189
Target Price : Rs.228.0
Upside : 21%+
Stop Loss : Rs.166.0 (Closing basis)

Investment Thesis

Recently, the stock price of Prince Pipes & Fittings Ltd.(Prince Pipes) corrected by ~3% from 52-week high of Rs.195.70 despite reporting good set of numbers in the recent quarters.

Prince Pipes is an established brand and leading manufacturer of polymer pipes and fittings in India. With its comprehensive product range, Prince Pipes positioned as an end-to-end polymer piping systems solution provider. The company operates with two brands 'Prince' in mass category and 'Trubore' in premium category. It gained a value market share of 5% in the pipe industry where Supreme Industries is the market leader with value market share of 11% followed by Finolex Industries with 9% value market share. The products of the company are used in various application like plumbing, irrigation and soil, waste and rain water (SWR) management. Prince Pipes entered double wall corrugated (DWC) pipes category in FY17 and as a result, its revenue grew by CAGR of 12% in FY17-19 largely led by volume growth of 11% during the same period.

Fittings are considered to be a high margin business, which is ~300-400bps higher than normal pipe business. Prince Pipes' fitting business contributes ~35% in the topline, which helped it to maintain margins despite volatility in PVC prices in the last two years. It plans to increase proportion of fitting revenue, going forward, by starting manufacturing of pipe fittings in its Telangana plant. Also, it has gradually increased revenue contribution of its DWC pipes to 3% in FY19. DWC pipes are used in the irrigation sector, sewerage and drainage, city gas distribution and in chemical and processing industries. HDPE pipes account for ~15% share in total plastic pipes industry. It is likely to grow at a CAGR of 12% in FY19-24. These pipes have been gaining prominence over traditional metal and cement pipes due to durability, low maintenance and longevity versus metal pipes.

Financials

- During the past 5 years, revenue of Prince Pipes grew at a CAGR of 9.3% while PAT grew at a CAGR of 20.4% in the same period.

Standal. (Rs.Mn.)	FY17	FY18	FY19	FY20E	FY21E
Revenue	12,465	13,150	15,719	18,076	20,788
EBITDA	1,626	1,633	1,859	2,138	2,459
% growth	57.3	0.4	13.8	15.0	15.0
PAT	742	728	834	1,004	1,194
EPS (INR)	6.7	6.6	7.6	9.1	10.9
P/E (x)	28.2	28.7	25.1	20.8	17.5
RoE (%)	24.1%	21.7%	19.9%	22.3%	24.7%

- Prince Pipes has reported strong 9.7% YoY growth in revenue to Rs.3,959mn in Q3FY20 led by strong growth in uPVC and polypropylene (PPR) pipes segment in the quarter.

Stock Data

Market Cap (Rs. Mn)	20,910
Market Cap (\$ Mn)	292.9
Shares O/S (in Mn)	110.0
Avg. Volume (3 month)	18,78,000
52-Week Range (Rs.)	195.70/ 143.00

Shareholding Pattern

Promoters	63.25%
FII's	0.65%
Institutions	14.75%
Others (incl. body corporate)	21.35%

Performance (%)	1M	6M	1Yr
Absolute	10.9%	NA	NA
BSE CD	7.2%	18.6%	27.5%

Key Ratios

Div Yield	0.0%
TTM PE	18.2x
ROE	23.8%
TTM EPS (Rs.)	10.5/-

- EBITDA of Prince Pipes improved by 14.7% YoY to Rs.541mn in Q3FY20 led by higher revenue growth and 10bps YoY decline in raw material to sales in the quarter. As a result, the EBITDA margin also increased by 60bps YoY to 13.7% in Q3FY20.
- Prince Pipes has reported PAT at Rs.243mn, a growth of 40.8% YoY in Q3FY20 led by lower interest burden and lower tax outgo.

Key Business Highlights

- Prince Pipes is one of the leading polymer pipes and fittings manufacturers in India and markets its products under two brand names, Prince Piping Systems and Trubore. It positioned as an end-to-end polymer piping systems solution provider.
- Prince Pipes manufactures polymer pipes using four different polymers, viz., uPVC, CPVC, PPR and HDPE and fittings using three different polymers, viz., uPVC, CPVC and PPR.
- Prince Pipes has six strategically located manufacturing plants with total installed capacity of 2,41,211 tonnes per annum, which has enabled it to develop a strong presence in North, West and South India. It sells Prince Piping Systems products through over 1,150 distributors in India while it sells Trubore products directly to wholesalers and retailers.

Valuation

- Currently, Prince Pipes has six existing plants which has total manufacturing capacity of ~2.4 lakh MTPA with a capacity utilization of 69.6%. It plans to further add ~0.7 lakh MTPA in Rajasthan and Telangana to take its manufacturing capacity to 3.1 lakh MT by the end of FY21E to drive volume. Currently, Prince Pipes' southern and western markets are served by two plants located in Dadra & Nagar Haveli and Haridwar. Addition of these two plants in Rajasthan and Telangana will not only save logistic cost for Prince Pipes by reducing lead distance significantly, but it will also help drive volume growth in the respective regions.
- Prince Pipes has acquired premium brand 'Trubore' in October 2012 from Chemplast Sanmar to expand its reach to new geographies. Currently, Trubore brand products are sold in South India, primarily in Tamil Nadu. Prince Pipes plans to increase sales of Trubore products by increasing marketing efforts and the number of wholesalers and retailers for Trubore brand products. It plans to expand the presence of Trubore brand initially in all other states in South India and then gradually expand in North, East and West India, thereby making Trubore a pan-India brand in the next three to four years. Over the years, the company's advertising & promotional expenses have seen a 3.6x jump mainly to create brand awareness in the premium product category.
- With leading manufacturer of polymer pipes and fittings, gained a value market share of 5% in the pipe industry, plans to increase proportion of high margin fitting revenue, Capacity addition plans to drive volume growth and plans to increase sales of Trubore products, we value Prince Pipes at 21.0x FY21E EPS of Rs.10.90 to arrive at target price of Rs.228.00, an upside of ~20%.

Risk & Concern

- Polymer prices is highly susceptible to volatility in crude price, any adverse movement of crude price may impact margin of Prince Pipes.
- Prince Pipes has technical collaborations with a reputed international player, any adverse relationship with these collaborators may impact its future growth.
- In addition to competition from players in the polymer pipes industry, Prince Pipes also faces competition from substitutes products.

Graphs & Charts

Figure 1: Net Sales Trend

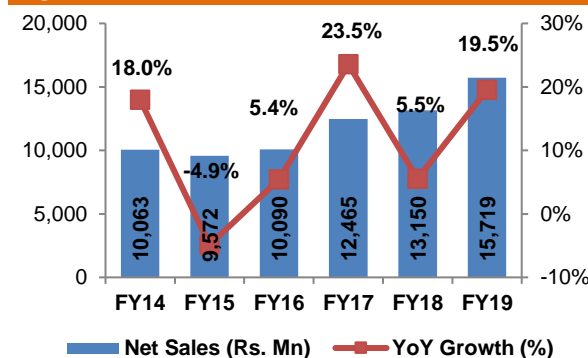


Figure 2: EBITDA & EBITDA Margin Trend

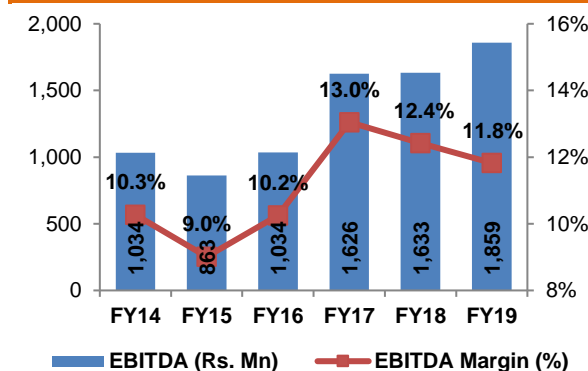


Figure 3: PAT Trend

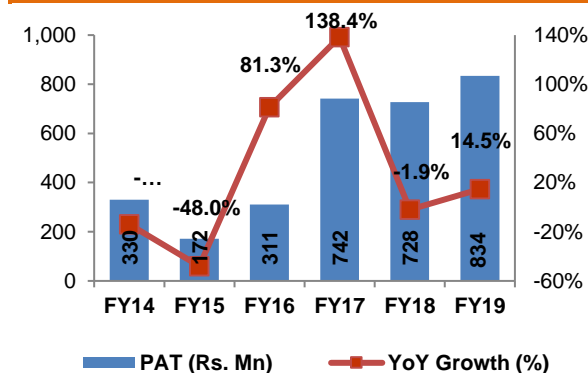
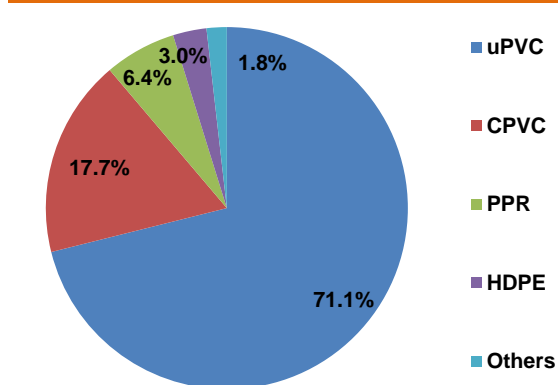


Figure 4: Segment-wise Revenue (FY19)



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