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November 2020



## The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code	: 542907
Time Duration	: 1 year
CMP	: ₹260.85 (as on 26 November, 2020)
Target Price	: ₹342

## Prince Pipes and Fittings Ltd

### Make your profit pipeline stronger!

Our Tiny Treasure for the month of November is Prince Pipes & Fittings Limited (PPFL). It is one of India's largest PVC pipes manufacturer engaged in the manufacturing of polymer pipes & fittings through the production of polymer pipes - CPVC, UPVC, HDPE, PPR, and fittings - CPVC, PPR, and UPVC, whose leading brands are Prince Piping Systems and Trubore. It has developed expansive operations across agriculture, plumbing, borewell categories, built the widest sewage product range and underground drainage solutions. With over 1,408 channel partners and distributors spread across different regions, the company has an extensive presence in North and South India. It has 1,151 distributors under the brand-Prince and 257 Trubore brand distributors. In FY20, the company enjoyed a market share of 5.5 per cent.

### Commissioning of new plants

PPFL has six manufacturing plants, of which, the newest plant was commissioned in Jaipur (Rajasthan) in September 2019. This extrusion plant would majorly be manufacturing UPVC, CPVC, and double wall corrugated (DWC) pipes, which will further strengthen the company's competitive advantages and help in establishing a greater foothold in Rajasthan and Northern India. The company is also in the process of setting up of integrated pipes & fittings manufacturing facility in Sangareddy (Telangana) with a total estimated installed capacity of 51,943 tonnes per annum. The commercial production at this plant will commence from Q2FY22. With this new plant, the company's presence will further strengthen in the South Indian market. As the company's plants are strategically located across India, the business expansion gets easier for the company and gives a competitive edge over its peers.

### Prudent product mix

In June 2020, the company, through a pilot launch, introduced a new water tank segment called STOREFIT in Gujarat. It plans to launch the same in other markets too across the country in the near term. Product innovation and further expansion of geographical footprint will continue to be the focus of the company's management. It is changing its product mix to higher-margin segments like plumbing and drainage system. It has added

in-house capabilities for manufacturing plumbing ball valves of the running sizes at Haridwar plant and also, targets to increase these capabilities to become an integrated manufacturer of pipes, fittings, solvents, and now, valves as well. Also, the company is planning to expand its premium brand Trubore to areas other than Tamil Nadu as it caters to construction and infrastructure segments. With a prudent product mix, the margins of the company are expected to expand in the upcoming years.

### Association with Lubrizol

In August 2020, PPFL launched Prince FlowGuard Plus in association with Lubrizol, which is one of the largest manufacturers of CPVC compounds worldwide, headquartered in the US. Lubrizol is dedicated to supplying the highest quality CPVC compounds to service hot and cold water plumbing markets in India. PPFL's robust distribution network combined with Lubrizol's brand equity is set to create a strong and sustainable partnership in the Indian piping industry. This partnership will help PPFL to further strengthen its distribution network and brand presence.

### Patent for DWC Coupler

In FY20, the company has received a patent for the innovative and technologically superior product design of the DWC Coupler. It plans to leverage its multi-location manufacturing network to become the first company to manufacture DWC at all its plants across India. With this, the company has become capable of being the unique supplier of DWC Coupler and gained a competitive advantage over other players in the market.

### Industry outlook

The government of India's focus on expanding areas under irrigation and increasing urban infrastructure spending which determines the demand for Water Supply & Sanitation (WSS) and affordable housing projects in urban, semi-urban, and rural areas is providing ample opportunities for the piping & fittings industry in India. Various schemes and initiatives like Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Smart City projects, Housing for All by 2022, etc. will provide stronger impetus to

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DSJ Pvt. Ltd. : Office no 211, Vascon Platinum Square, Next to Hyatt Regency, Vimannagar, Pune- 411014 | For Customer Service : 020-66663-802/803 OR [service@dsji.in](mailto:service@dsji.in)

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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industry growth. Also, the growing penetration of branded plumbing pipes in the affordable housing project segment and the need-based replacement potential of plumbing pipes would further boost this industry.

The company's revenue and net profit have grown at a CAGR of 11 per cent and 49 per cent over the last five years. Its balance sheet stands strong with a low debt-equity ratio of 0.1x as of September 30, 2020. Also, it is a cash-rich company.

## Financial performance

PPFL's standalone revenue for the quarter Q2FY21 came in at Rs 458.66 crore as against Rs 429.23 crore in the corresponding quarter last year, registering a 6.9 per cent YoY increase. EBITDA for the quarter grew by 23.3 per cent YoY to Rs 80.27 crore as against Rs 65.08 crore in the corresponding quarter last year, with a corresponding margin expansion of 234 bps. EBITDA margin for the quarter stood at 17.5 per cent. This increase was due to lower input costs and a change of product mix to higher-margin segments. PAT for the quarter came in at Rs 46.57 crore as against Rs 33.41 crore in the corresponding quarter last year, with a YoY increase of 39.4 per cent.

## Valuation

The company is trading at a TTM P/E of 26.2x with a TTM EPS of Rs 10.03. In FY20, it delivered ROE and ROCE of 18.2 per cent and 20.5 per cent, respectively. The commissioning of new plants will help the company strengthen its presence in North and South India. The prudent product mix will enable it to expand margins over the upcoming years. Its association with Lubrizol and patent win for DWC Coupler will augur well for the company in the near term and give a competitive edge over its peers. The financial growth has been consistent and it is trading at a reasonable valuation. Considering all these factors, we see a potential upside of 31 per cent with a target price of Rs 342 for a period of one year.

### Inc/Exp Statement (Standalone)

Description	202003	201903	201803	201703	201603
Net Sales	1635.66	1571.87	1315.04	1246.5	1008.99
Total Income	1642.6	1579.00	1321.07	1248.98	1010.12
Total Expenditure	1406.88	1387.81	1151.7	1083.86	905.57
PBIDT	235.72	191.19	169.36	165.11	104.55
PAT	112.51	82.13	72.77	74.18	31.11
Dividend %	10.00	--	--	--	--
Adj. EPS(Rs)	10.23	9.12	8.08	16.48	6.48

### Quarter On Quarter (Standalone)

Particulars	202009	202006	Q on Q Var %	201909	Y on Y Var %
Net Sales	458.67	302.48	51.63	429.23	6.86
Total Expenditure	378.39	270.87	39.70	364.15	3.91
PBIDT (Excl OI)	80.27	31.62	153.91	65.09	23.34
PAT	46.57	11.25	313.94	33.41	39.39
PBIDTM% (Excl OI)	17.5	10.45	67.46	15.16	15.44
PBIDTM%	18.22	12.17	49.71	15.3	19.08
PATM%	10.15	3.72	172.85	7.78	30.46
Adj. EPS(Rs)	4.23	1.02	314.71	3.71	14.02

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