

5<sup>th</sup> February 2021

CMP – ₹401/-

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## Performance Review for Q3FY21 vs. Q3FY20

## Important Statistics

- Quarterly performance was robust on all parameters
- Revenue increased by 39% to ₹549Cr
- Sales volume increased by 18% at 36,711 MT
- EBITDA grew by 93% to ₹103Cr
- EBITDA Margins came in at 18.8% vs 13.5%
- PAT at ₹67Cr, grew by 175%
- Working Capital days reduced to 28 days as compared to 51 days

M.CAP (₹)	₹43.96 Bn
52 Week H/L (₹)	401.70/75.30
NSE Code	PRINCEPIPE
BSE Code	542907

## Key Concall Highlights

## ➤ EBITDA

**The company saw expansion in EBITDA Margins due to:**

- Inventory gain of ₹20-25Cr on account of higher PVC prices,
- Better pricing power due to tailwind in the sector,
- Favourable product mix- High Margin products like plumbing and sewerage witnessing deeper penetration
- Robust Volume growth at 18% (Volume in Q3FY20 had increased at 11% vis-à-vis Q3FY19)

The company utilised inventory gains for Advertising and Promotion (A&P) expense for brand identity. This led to an increase of 90% in branding expenditure (19 Cr vs 10 Cr YoY).

Adjusted for inventory gains and increase in branding expenditure, EBITDA margins would have been at 16%.

**The company has refrained from giving any margin guidance, however it has mentioned that there are sufficient levers to increase the margin.**

## ➤ Working Capital &amp; Debt

	Q3FY21	Q3FY20
Sharp reduction in Working Capital cycle days	28	51
<i>The company mentioned that it would not be able to sustain this levels as it would like to maintain working capital of 45-55 days.</i>		

	Q3FY21	FY20
Reduction due to lesser Inventory days	46	77
<i>The company mentioned that it would not be able to sustain this levels as it would like to maintain inventory of 60+ days.</i>		

	Q3FY21	Q3FY20
Steady Debtor days despite strong revenue growth	28	51
<i>The company mentioned that it wants to focus on reduction in debtor days.</i>		

	Q3FY21	Q2FY21
Reduction in Gross Debt	119 Cr	180 Cr

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➤ **Volume & Capacity Addition**

**The company saw a robust as well as industry-leading volume growth of 18% mainly due to:**

- Strong additions in distributors- 250 in 9MFY21 and 100 in Q3FY21.
- FlowGuard Plus brand seeing the strong response in B2B projects as well as the company is able to do cross-sell CPVC products.

The company is hopeful that the volume growth would be sustainable given demand drivers like Jal Jeevan Mission + Recovery in Real Estate.

The company commenced its seventh manufacturing facility in Telangana ahead of schedule. The plant is about to have a total installed capacity of ~50,000 tons per annum, and capacity ramp up will implement in a phased manner over the next 2-3 years.

The unit will serve Southern markets and play an integral role when the industry is witnessing consolidation.

➤ **Addressing Concerns**

- The company mentioned that it is looking to change the terms and conditions in channel financing by moving away from the recourse option. The same should improve the quality of the distributors as well as give the power to brand identity.
- The company had paid an advance amount of ₹40Cr to Prince Marketing (Promoter Group Entity) for the purchase of immovable property at Mumbai.
- However, the conveyance of the immovable property between the company and promoter entity had not been completed. This led to concern regarding the repayment of the advance amount.
- The company allayed the concern in January 2021 when the first major tranche of the advance payment of ₹26.1Cr was received from the promoter entity.

**View**

Tie-up with Lubrizol aided the company to clock robust volume growth in the fastest-growing sub-segment i.e. CPVC. The company's intent is clear to focus on premium products and it has ramped up investments in branding.

The company has balanced exposure across the plumbing, industrials, agriculture, and sewerage segment that could deliver strong growth in light of the recent announcements by the government in the budget.

The company has delivered strong results w.r.t. strong volume growth, improved EBITDA margins, and superior product mix.

**Considering the strong quarterly performance on all parameters, we recommend investors to add the stock on decline and hold with a target range of ₹480-500.**

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## Quarterly Performance

(₹mn)

Profit & Loss	Q3FY21	Q2FY21	% QoQ	Q3FY20	% YoY
Revenue	5,490	4,587	20%	3,959	39%
Cost of Material	3,563	3,068	16%	2,670	33%
Gross Profit	1,927	1,519	27%	1,289	49%
Other Expenses	897	716	25%	756	19%
EBITDA	1,030	803	28%	533	93%
EBITDA Margin	19%	18%	7%	13%	39%
Other Income	46	33	41%	8	504%
Depreciation	151	152	-1%	133	13%
Finance Cost	35	54	-35%	89	-60%
PBT	890	630	41%	319	179%
Tax	222	164	35%	76	191%
Net Profit	668	466	43%	243	175%

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Prince Pipes & Fittings Ltd. as on February 05, 2021**

Name of the Security	Prince Pipes & Fittings Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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