

Prince Pipes and Fittings Limited

January 12, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable (A Plus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1+ (A One Plus) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE Ratings Ltd. has reaffirmed rating and withdrawn the outstanding ratings of 'CARE A+; Stable/CARE A1+' [A Plus; Outlook: Stable/ A One Plus] assigned to the bank facilities of PPFL. with immediate effect. The above action has been taken at the request of PPFL. and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE Ratings Ltd.

Rating Sensitivities

Positive rating sensitivities

- Significant improvement in scale of operations with revenue increasing to Rs. 4,000 crore and PBILDT margin sustained at 15% or above.
- Capacity utilization of plants increasing to 70% or more.
- Sustenance of financial risk profile with improvement in operating cycle to around 45 days.

Negative rating sensitivities

- Decline in revenue to below Rs. 1,800 crore with PBILDT margin declining to less than 13% on sustainable basis.
- Deterioration in Overall gearing (including acceptances) to 0.75x on a sustained basis due to significant debt funded capex or otherwise.
- Significant deterioration in working capital cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in business risk profile

PPFL has been consistently working towards expanding its scale of operations by expanding its geographical reach and products portfolio as well as increasing penetration of the market where it is already present. The company was able to increase its market presence and commands a market share of ~6% as of FY21 from ~5% in FY20. CARE believes that the company will improve its market share driven by rising industry consolidation, company's diversified product portfolio and robust distribution network. The tie-up with Lubrizol for its CPVC pipes will further support the company's market share. The overall industry demand will be driven by Government spending under various schemes such as Jal-Se-Nal, low-cost housing scheme etc. Market position is expected to improve significantly with commencement of operations at Telangana plant which will help it cater to the South Indian market, which the company was unable to service earlier due to prohibitive logistics costs for supplies from its Western India operations.

The Telangana plant, which has a total project cost of ~Rs. 184 crore, is to be commissioned in two phases; phase 1 has been completed in February 2021 and phase 2 is expected to be completed prior to FY22. Of the total cost, ~Rs. 94 crore has been expended towards the plant and capex is entirely funded through IPO proceeds.

Strong financial risk profile

The company continues to have a strong financial profile driven by strong net worth, low gearing and comfortable debt service coverage indicators. The company has prepaid its entire term loan as on March 31st, 2021 using internal accruals and the reliance on working capital borrowing has reduced with usage of strong cash accruals to fund the incremental working capital. Thus, overall gearing which stood at 0.43x as of March 31st, 2020 has improved to 0.25x as of March 31st, 2021. Interest coverage indicator (PBILDT/interest) has also improved to 18.46x as of March 31st, 2021 from 7.16x as of March 31st, 2020. The capital structure of PPFL is expected to remain stable, as PPFL does not plan to avail any incremental long-term debt and it is funding its entire on-going capex through internal accruals/proceeds from IPO.

CARE notes that PPFL has registered decline in Q1FY22 result, as Total Operating Income (TOI) dropped by ~56% on Q-o-Q basis, however there is an increase of ~10% in TOI on Y-o-Y basis. We believe that this decline is attributable to muted demand from irrigation segment in the quarter, lockdown due to second wave, and high base effect from exceptional result in Q4FY21. Although, the overall financial profile of the company continues to remain robust.

Vast experience of promoters and professional management team

PPFL is headed by Mr. Jayant Chheda, founding promoter of the company, with more than three decades of experience in the pipe industry. Under the leadership of Mr. Chheda the company expanded its operations from single manufacturing unit to

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

seven manufacturing units while the seventh unit is presently being developed. Mr. Jayant Chheda is assisted by his family members, Mr. Parag Chheda and Mr. Vipul Chheda, each having more than two decades of experience in the industry, and Mrs. Heena Chheda having more than 14 years in the pipes and fittings segment. Moreover, the company has five independent directors and two Non-executive (Nominee) directors for better governance, and professional management team for handling different operations of the company.

Diversified product portfolio and wide distribution network

The company has well diversified product portfolio of polymer pipes and fittings, which includes CPVC, UPVC, PPR, and DWC pipes. Through its large basket of products, the company caters to varied user base such as water supply and sanitation, irrigation, plumbing, and drainage lines. Diversified user base helps the company in tiding over low demand from any particular user industry.

As on March 31st, 2021, PPFL had more than 7,200 SKUs under its product portfolio. The company has strategically set up its manufacturing plants, with total installed capacity of approximately 2,59,000 tonnes per annum, at Haridwar, Dadra, Chennai, Kolhapur, Athal, Jobner and Sangareddy. In addition, PPFL also outsources some of its manufacturing to five contract manufacturers located at Aurangabad (Maharashtra) and Hajipur (Bihar), which has enabled it to achieve geographical diversification and minimize the time lag between order inflow and delivery of products.

Key Rating Weaknesses

Presence of large number of players leading to high competition in the industry

The piping industry in India comprises of large number of unorganized players with local presence, and some large organised players. Large number of unorganized players in the industry leads to high competition amongst the existing players, as these players largely compete on their pricing. Nevertheless, larger organized players are better placed in the market due to their superior quality, brand name, and their ability to negotiate better prices with the suppliers of raw materials.

Susceptibility of margins to volatility in raw material prices and currency movements

PPFL's operations are raw material intensive and the primary raw materials consumed by the company are CPVC, UPVC, PPR, and HDPE resins, which are derivatives of crude oil. Crude oil prices have shown volatility in the past thereby affecting operating margins. Furthermore, as landed prices of raw materials are linked to forex rates, it may also affect the raw material prices. PPFL enters into derivative contracts to hedge part of its forex exposure (about 60% is hedged). As on March 31st, 2021 the company had unhedged exposure of Rs. 131.37 crore. Hence, any adverse movement in the forex rates may affect PPFL's profit margins. Thus, volatility in international price of raw materials, fluctuations in the exchange rate and demand-supply mismatch are the key risks faced by players in the pipes and fittings industry.

Moderately working capital intensive nature of operations

The operation of the company continues to remain moderately working capital intensive. However, the company was able to improve its operating cycle from around three months to two months and expects to tighten it further through better debtor management.

Liquidity: Strong

PPFL has a strong liquidity profile with healthy cash accruals and cash & bank balances, no long-term debt, and moderate utilization of bank facilities. The utilization of fund based and non-fund based facility is at 54.86% and 65.50% respectively over 12 months ended March 2021 and provides liquidity backup. The company has cash and bank balance of ~Rs. 229 crore as on March 31st, 2021, the cash would largely be used up to complete the on-going capex at Telangana. Despite that we believe liquidity is very strong because of large cash accruals being generated annually – Rs. 281 crore in FY21 and Rs. 163 crore in FY20.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Prince Pipes and Fittings Limited (PPFL) is promoted by the Chheda family having over three decades of experience of manufacturing polymer pipes. The company manufactures CPVC (Chlorinated polyvinyl chloride) pipes and fittings, UPVC (Unplasticised Polyvinyl Chloride) pipes and fittings, PPR (Polypropylene Random) pipes and fittings, High-density polyethylene (HDPE) and DWC (Double Wall Corrugated) pipes. It offers piping systems and fittings in the segments such as plumbing, sewage, agriculture and borewell.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1642.42	2088.52	1095.28
PBILDT	237.50	381.50	167.61
PAT	112.51	221.83	93.84
Overall gearing (times) including LC acceptances	0.43	0.25	0.16
Interest coverage (times)	7.16	18.46	26.24

A: Audited

Status of non-cooperation with previous CRA: ICRA BBB-; Stable /A3 (Suspended on May 30th, 2016)

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (12-Aug-21)	1)CARE A-; Positive (11-Jan-21)	1)CARE A-; Stable (21-Feb-20) 2)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Aug-18)
2	Fund-based - LT-Working Capital Demand loan	LT	-	-	1)CARE A+; Stable (12-Aug-21)	1)CARE A-; Positive (11-Jan-21)	1)CARE A-; Stable (21-Feb-20) 2)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Aug-18)
3	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A1+ (12-Aug-21)	1)CARE A2+ (11-Jan-21)	1)CARE A2+ (21-Feb-20) 2)CARE A3+ (03-Apr-19)	1)CARE A3+ (03-Aug-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Demand loan	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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