Prince Pipes and Fittings Limited

August 12, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	190.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	317.00	CARE A1+ (A One Plus)	Revised from CARE A2+ (A Two Plus)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**507.00 (Rs. Five Hundred Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Prince Pipes and Fittings Limited (PPFL) takes into consideration the improved business and financial risk profile of the company. The company has gained market share over the past few years and commands a market share of around 6% as of FY21 (improvement from ~5% in FY20). Total Operating Income grew by 27.16% in FY21 to ~Rs. 2,088 crore, as compared to 4.21% growth in FY20. The profitability margins increased significantly from 14.46% in FY20 to 18.27% in FY21. The increase in operating (PBILDT) margin was driven by a combination of inventory gain (which is not expected to be sustainable), absolute margin increase on account of upward revision in product prices due to rise in PVC resin prices, higher margins on account of new products such as CPVC pipes as well as on irrigation products which contributed to increased proportion of revenues in FY21. Additionally the strong brand equity of the company in the market has also contributed to improved profitability in the year. CARE Ratings expects PBILDT margins to moderate from FY21 levels but be sustained above historical levels.

CARE expects the company to improve its market share driven by rising industry consolidation and the company's robust distribution network. The operating margin is expected to moderate going forward and is expected to remain at around 15%.

The financial risk profile of the company has improved with prepayment of term loan and lower reliance on debt to fund working capital. Going forward with no new capex plans (except the ongoing Telangana project) the financial risk profile of the company is expected to remain comfortable.

The rating continues to factor in experience of the promoters and professional management team with long track record of the company's operations, diversified product portfolio with strategically located manufacturing units, wide distribution network with nationwide presence.

The above rating strengths are, however, tempered by susceptibility of its operating profit margin to fluctuation in raw materials prices along with volatility in foreign exchange and moderate working capital intensive nature of operations. Rating also continues to factor in the PPFL's presence in highly competitive industry setup with intense competition being faced from both organized and unorganized sector.

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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 in Q2 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 seven manufacturing units while the seventh unit is presently being developed. Mr. Jayannt 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
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies
Complexity Levels of Rated Instruments

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 (Un-plasticised 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)	FY19 (A)	FY20 (A)	FY21 (A)
Total operating income	1576.11	1642.42	2088.52
PBILDT	188.30	237.50	381.50
PAT	82.13	112.51	221.83
Overall gearing (times) including LC acceptances	1.06	0.43	0.25
Interest coverage (times)	5.19	7.16	18.46

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*

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan	-	-	-	190.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	317.00	CARE A1+

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)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	190.00	CARE A+; Stable	-	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	317.00	CARE A1+	-	1)CARE A2+ (11-Jan-21)	1)CARE A2+ (21-Feb-20) 2)CARE A3+ (03-Apr-19)	1)CARE A3+ (03-Aug-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Demand loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID - mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Arunava Paul
Group Head Contact no.- +91 98209 04584
Group Head Email ID - arunava.paul@careratings.com

Relationship Contact
Name - Saikat Roy
Contact no. - 022 6754 3404
Email ID - saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**