Prince Pipes and Fittings Limited

February 21, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities-Term loan	64.24 (reduced from 194.24)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Long term Bank Facilities-Fund based	175.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Short term Bank Facilities	252.00	**CARE A2+ (A Two Plus)**	**Revised from CARE A3+ (A Three Plus)**
Total Facilities	**491.24 (Rs. four hundred and ninety-one crore and twenty-four lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Prince Pipes Fittings Limited (PPFL) factors in the improvement in its leverage indicators post conclusion of Initial Public Offer (IPO). The rating also factors in the fact that going forward the debt requirement would be to the extent of working capital only as the IPO proceeds would also be utilized towards the envisaged capex. Thus, the leverage and debt coverage indicators are expected to remain comfortable going forward. The liquidity witnessed improvement during 9MFY20 marked by elevation in gross cash accruals with expansion in operating profit margins coupled with reduction in long term debt (through scheduled repayment and prepayments).

The rating continues to favorably factor in the diversified product portfolio with strategically located manufacturing units, wide distribution network with nationwide presence, and improved brand recall post elevated advertisement efforts witnessed during FY19 and 9MFY20. The ratings also factor in experience of the promoters and professional management team with long track record of the company's operations.

The above rating strengths are, however, tempered by project risks arising from large size planned capex, susceptibility of its operating profit margin to fluctuation associated with key raw materials and foreign exchange as the key raw materials are derivatives of crude oil and import dependency on raw material is to extent of 40% of total raw material consumption. Ratings also continue 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 Factors

- *Improvement in PBILDT margin to 16% on a sustained basis*
- *Sustenance of total debt to PBILDT below 1.5x on sustained basis*

Negative Factors

- *Deterioration in Overall gearing (including acceptances) to 0.75x on a sustained basis*
- *Deterioration in PBILDT margin to 9% on a sustained basis*

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in capital structure and debt coverage indicators

The capital structure of PPFL has improved significantly on the back of successful completion of the Initial Public Offer (IPO) which has led to an improvement in overall gearing which is expected to remain comfortable going forward. The other debt coverage indicators like Total debt/GCA and Total debt/PBILDT are also slated to improve as PPFL does not plan to undertake any debt for funding of its capex plans as the same would be funded through proceeds from IPO/internal accruals.

Vast experienced 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 six manufacturing units while the seven unit is presently being developed. Mr. Jayannt Chheda is assisted by his family

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

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 four independent board members for better governance, and professional management team for handling different operations of the company.

Long track record of the company's operations and recognised brand name
The company has been present in the plastic piping business since 1987. Through more than three decades of its presence in the industry, the company has been able to build a niche for its brand 'Prince piping systems'. In October 2012 the company acquired 'Trubore' brand which caters to South India, primarily in Tamil Nadu. Having recognized brand name helps the company in commanding premium as compared to other smaller unorganized players.

Wide distribution network and infrastructure leading to nationwide presence
PPFL has a wide distribution network of 1151 distributors as on October 31, 2019. PPFL sells products under its 'prince piping systems' brands through distributors, while for 'Trubore' brand, PPFL directly sells to wholesalers and retailers. The company has 11 warehouses to store its products at different parts of the country. In order to serve different geographies, the company has strategically set up its manufacturing plants at various locations. The company has six manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, Athal and Jobner, Rajasthan, while the seventh plant is being set up in Telangana. In addition, the company also outsources some of its manufacturing with its contract manufacturers present at various locations in Maharashtra, Andhra Pradesh, Odisha and Bihar. Presence of manufacturing facilities at different geographic locations helps the company in meeting changing demand scenario of those geographies by minimising the time lag between order inflow and delivery of products while also saving the freight cost. As on October 31, 2019 the company had combined installed capacity of 2,41,211 tonnes per annum.
Diversified product portfolio
The company has well diversified product portfolio of polymer pipes and fittings which includes Chlorinated polyvinyl chloride (CPVC), Un-plasticized Polyvinyl Chloride (UPVC), Polypropylene Random (PPR), and Double Wall Corrugated (DWC) pipes. The company also manufactures CPVC, UPVC, and PPR fittings. Further, PPFL has exposure to various end user segments which include plumbing, irrigation and Soil, waste and rain water (SWR) among others. As on October 31, 2019 the company had around 7,167 SKUs under its product portfolio. 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. However, being largely a domestic player, overall slowdown in the domestic economy may affect PPFL's demand adversely.

Consistently growing scale of operations; albeit moderate operating margin
PPFL has been consistently working towards expanding its scale of operations by expanding its geographical reach as well as increasing penetration of the market where it is already present. Moreover, over its long years of operations the company has also expanded its product portfolio to drive growth. Recently, the company also entered into underground drainage systems by introducing double wall corrugated (DWC) pipes. All these factors have led to consistently increasing sales volume and the revenues for the company. During FY19, PPFL's Total Operating income (TOI) grew by 18.9% on YoY basis led by growth in all segments, but mainly contributed by SWR segment; however operating margin was moderate at 11.90%. In 9MFY20, PPFL has reported an increase of 11.90% in TOI; however the operating margin improved to 14.33% mainly led by change in product mix.

Key Rating Weaknesses
High working capital utilization
Processing time involved in the manufacturing operations coupled with credit period offered to its distributor's leads to high working capital requirements. The company funds part of its working capital requirements through importing raw materials, as it gets credit period of around 90 to 180 days for the imported raw materials. However, the company's imports forms around 40% of total raw material requirements, and the remaining raw materials are purchased from domestic suppliers with credit period of less than a week. This leads to significant working capital requirements for the company. The average working capital utilization of PPFL for the past 14 months (December 2019 to January 2020) has been high at 83.7%.

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 with each other 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 with the suppliers of raw materials.

Susceptibility of operating margin to volatility in raw material prices

The company's operations are raw material intensive with raw material expenses forming around 70% of its TOI. The primary raw materials consumed by the company are CPVC, UPVC, PPR, and HDPE resins which are derivatives of crude oil. Moreover, fragmented nature of industry may lead to lag in passing on increase in input prices, thus impacting PPFL's profit margins in the short term.

Furthermore, as prices of crude oil are linked to forex rates, volatility in the forex rates may also affect the raw material prices. The company also enters into derivative contracts to hedge part (around 40%) of its forex exposure. Nevertheless, major portion of the forex exposure still remains unhedged. Hence any adverse movement in the forex rates may affect PPFL's profit margins. As on December 31, 2019, PPFL had unhedged exposure to the tune of Rs.123.39 crore.

Exposure to project Risk

The company is in the process of setting up a manufacturing facility in Telangana with an installed capacity of 51,943 tonnes per annum for manufacturing of UPVC, CPVC, DWC pipes, and UPVC/CPVC fittings which is expected to be operational from Q4FY21. The total project cost is Rs.196 crore. PPFL has already acquired land for the project and has spent about Rs.12.10 crore. The entire project would be funded through proceeds from IPO. PPFL has not yet entered into any contracts for the construction of the plant and purchase, installation and commissioning of the plant and machinery thereby exposing the company to the risk of cost over-run. According to the management, approvals required are broadly in place.

Liquidity: Strong

The liquidity position of PPFL is strong as reflected by cash and liquid investments of Rs.79.82 crore as on December 31, 2019. Further, PPFL has ~Rs.29 crore earmarked for general corporate purposes. The unutilized fund based limit stood at Rs.16.35 crore as on January 31, 2020. PPFL is expected to earn Gross Cash accrual of about Rs.176 crore in FY20. PPFL has made repayments (including pre-payments) to the tune of ~Rs.87 crore till February 13, 2020. The existing cash and cash equivalents position coupled with unutilized fund based limit and the expected cash accruals to be earned are more than sufficient in relation to PPFL's debt repayment obligations going forward.

Analytical approach: Standalone

CARE has analysed the credit profile of Prince Pipes and Fittings Limited on a standalone basis

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies

About the Company

Prince Pipes and Fittings Ltd. (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. PPFL has six manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, Athal and Jobner, Rajasthan which was commissioned in FY20 having an installed capacity of 20,909 tonees per annum. Further, PPFL is also in the process of setting up a plant in Sangareddy (Telangana) having a capacity of 51,943 MT, the total cost of which is estimated to be ~Rs.196.10 crore which would be majorly funded through proceeds from Initial Public Offer (IPO). In addition, the company also outsources some of its manufacturing with its contract manufacturers located at Aurangabad (Maharashtra), Hajipur (Bihar). As of October 31, 2019, the total installed capacity of PPFL's six existing plants was 2,41,211 tonnes per annum.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	1,325.31	1,575.21	1,206.68
PBILDT	167.11	187.40	172.92
PAT	73.50	82.13	84.23
Overall gearing (times)	1.43	1.06	0.37
Interest coverage (times)	4.72	5.16	6.93

A: Audited; UA: unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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-Term Loan	-	-	-	September 2025	64.24	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	175.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	252.00	CARE A2+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	64.24	CARE A-; Stable	1)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Aug-18)	1)CARE BBB+; Positive (26-Feb-18)	1)CARE BBB+ (30-Nov-16)
2.	Fund-based - LT-Working Capital Demand loan	LT	175.00	CARE A-; Stable	1)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Aug-18)	1)CARE BBB+; Positive (26-Feb-18)	1)CARE BBB+ (30-Nov-16)
3.	Non-fund-based - ST-BG/LC	ST	252.00	CARE A2+	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (03-Aug-18)	1)CARE A3+ (26-Feb-18)	1)CARE A3+ (30-Nov-16)

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

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

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