Prince Pipes and Fittings Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term bank facilities – Term Loans	194.24 (Reduced from Rs.217.26 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Long term bank facilities – Fund Based	175.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Short term bank facilities	252.00 (Reduced from 271.19)	**CARE A3+ (A Three Plus)**	Reaffirmed
Total Facilities	**621.24 (Rs. Six Hundred twenty one crore and twenty four lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Prince pipes and fittings limited (PPF) continues to factor in vast experience of the promoters and professional management team, long track record of the company's operations, having a diversified product portfolio backed by PPF's wide distribution network and infrastructure, strong brand recall and nationwide presence leading to consistent growth in scale of operations.

The above rating strengths are, however, tempered by project risks arising from large size ongoing/planned capex vis a vis its size of networth, satisfactory liquidity profile, and moderate financial risk profile of the company. The ratings also factors in presence of large number of players leading to high competition in the industry, profit margins susceptibility to volatile raw material prices, and working capital intensive nature of operations.

Going forward, the company's ability to successfully execute and commercialize its planned projects without any time and cost overrun as per the planned funding profile as envisaged while improving its capital structure, debt coverage indicators, and profit margins will remain the key rating sensitivities. Moreover, any inordinate delay in fructification of PPF's plans to infuse funds by way of equity resulting into higher reliance on debt to fund one of its project will remain the key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

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 able leadership of Mr. Chheda the company spread its operations from single manufacturing unit to five manufacturing units and the company's sales grew multiple times. 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 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 November 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 systms". In October 2012 the company acquired Trubore brand which caters to South India, primarily in Tamilnadu. Having recognized brand name helps the companies in commanding premium as compared to other smaller unorganized players.

Wide distribution network and infrastructure leading to nationwide presnce

The company sales its "prince piping systems" brands to distributors, who then sale the products to wholesalers and retailers. Whereas, PPFL sales its Trubore brand directly to wholesalers and retailers. As on June 30, 2018 the company had distributors and wholesalers network of 1,055 which rose from 766 as on March 31, 2017. The company has 10 warehouses to store its products at different parts of the country. During FY18, North, West, South, and East markets contributed 39.93%, 27.41%, 22.87%, and 9.79% to the company's revenue.

In order to serve different geographies the company has strategically set up its manufacturing plants at locations. The company had five manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, and Athal. In addition, the company also outsource some of its manufacturing with its contract manufacturers present at locations Aurangabad (Maharashtra), Hajipur (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 July 31, 2018 the company had combined installed capacity of 242,916 tonnes.

Diversified product portfolio
The company has well diversified product portfolio of polymer pipes and fittings which includes CPVC, UPVC, PPR, and DWC pipes. The company also manufactures CPVC, UPVC, and PPR fittings. As on June 30, 2018 the company had around 7,480 SKU's 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, net worth base continues to be moderate
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 its 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 FY18, the company' sales volume grew by 14.05% on y-o-y basis from 96.19 MT in FY17 to 109.63 MT in FY18. However, as the decline in input prices were passed on by reducing its product prices the company's revenue growth was relatively lower. During FY18, the company's total operating income grew by 5.81% on y-o-y basis from Rs.1,248.42 crore in FY17 to Rs.1,320.97 crore as during FY18. However, despite increasing revenues, the company's tangible net-worth is still remains to be moderate at Rs.311.50 crore, thus limiting the company's ability to absorb any unforeseen losses.

Key Rating Weaknesses
Working capital intensive nature of operations
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 150 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.

Moderate financial risk profile
Consistent capacity addition and modernization of plants has led to increase in debt levels during FY18. PPFL's total debt increased to Rs.444.84 crore as on March 31, 2018 from Rs.423.63 crore as on March 31, 2017. However, plough back of profits generated during the period led to improvement in the capital structure as seen from overall gearing ratio of 1.43 times as on March 31, 2018 as against 1.78 times as on March 31, 2017. Moreover, growth in profits led to improvement in the gross cash accruals and hence the debt coverage ratios also improved on y-o-y basis as indicated by PBILDT interest coverage ratio of 4.75 times (P.Y:4.57 times) and total debt to GCA ratio of 3.99 times (P.Y:4.31 times).
Repayment of term loans term loans coupled with accretion of profit to the reserves has led to improvement in the gearing as on December 31, 2018 to 1.22 times. Also, the company's PBILDT interest coverage ratio improved marginally to 4.79 times during 9MFY19. Moreover, with the company planning to reduce its dependence on debt funded capex, its gearing ratios and debt coverage indicators are further expected to improve going forward.

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 player 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 player are better placed in the market due to their superior quality, brand name, and their ability to negotiate with the suppliers of raw materials.

Volatile raw material prices may affect the company's profit margins
The company's operations are raw material intensive with raw material expenses forming around 70% of the company's total operating income. 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 may affect the company's profit margins in the short term. However, in the long term the company is largely able to pass on increase in input prices as seen from the company's gross margin which has largely remained range bound between 30-33% during FY16 to FY18, despite volatile polymer prices during the period.

Furthermore, as prices of crude oil are linked to forex rates, volatility in the forex rates may also affect the raw material prices. Besides, the company also imports around 35-40% of its raw material requirements. On the other hand, the company's exports are very marginal amounting to Rs.2.65 crore during FY18. The company also enters into derivative contracts to hedge part of its forex exposure. Nevertheless, major portion of the forex exposure still remains unhedged. Hence any adverse movement in the forex rates may affect the company's profit margins. As on December 31, 2018 the company had unhedged exposure of USD 27.12 Mn (Rs.189.36 crore).

Project Risk

The company is in the process of setting up a manufacturing facility at Rajasthan with capacity of 40,621 tonnes per annum which is expected to start commercial operations in phases starting from June 2019. The company is expected to incur approximately Rs.144.35 crore towards the Rajasthan plant, which is expected to be funded through mix of debt and equity. Till March 22, 2019 the company has incurred Rs.65.95 crore towards the greenfield expansion which was funded through term loan of Rs.37.08 crore and internal accruals of Rs.28.87 crore. Besides, the company is also in the process of adding a manufacturing plant in Telangana for which it has already acquired land. The company's Telangana plant is expected to have total installed capacity of around 52,242 tonnes per annum for manufacturing of UPVC, CPVC, DWC pipes, and UPVC/CPVC fittings. The company is estimated to incur around Rs.193.15 crore towards the project, which is expected to be met entirely through IPO proceeds/ equity infusion. Nevertheless, considering the size of ongoing/planned projects, successful commercialization of the projects, without affecting the profit margins and capital structure, will be crucial for the company.

Satisfactory liquidity position

As the company continues to utilize its cash generated from operations to fund its expansion plans, the company's liquidity position continues to be on the lower side. As on March 31, 2018 the company had cash and bank balance of Rs.0.23 crore. Moreover, the company's utilization of fund based limits also remained on higher side as seen from average fund based utilization of around 87% for the last twelve months ending December 31, 2018; thereby giving access to 13% of limits which acts as a satisfactory buffer for its working capital requirement.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Prince Pipes and Fittings Ltd. (PPF) is promoted by the Chheda family possessing 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 pipes and fittings, and DWC (Double Wall Corrugated) pipes. It offers piping systems and fittings in the segments such as plumbing, sewage, agriculture and borewell.

The company has five manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, and Athal. In addition, the company also outsource some of its manufacturing with its contract manufacturers present at locations Aurangabad (Maharashtra), Hajipur (Bihar). As on July 31, 2018 the company had combined installed capacity of 242,916 tonnes.

PPF supplies polymer pipes to large industrial clients currently under two brand names 'Prince Pipes and Fittings' and 'TRUBORE'. The pipes are used for varied applications in plumbing, irrigation and sewage disposal.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,248.42	1,320.97
PBILDT	163.45	168.27
PAT	65.17	73.50
Overall gearing (times)	1.78	1.43
Interest coverage (times)	4.57	4.75

A: Audited

Status of non-cooperation with previous CRA:

ICRA has suspended the credit rating assigned to bank facilities of Prince Pipes & Fittings Private Limited on May 30, 2016 owing to inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable.

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

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.*

Analyst Contact:
Name: Vikash Agarwal
Tel: 022 - 6754 3405
Email: vikash.agarwal@careratings.com

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

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	-	-	November, 2025	194.24	CARE BBB+; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	175.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	252.00	CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	194.24	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Aug-18)	1)CARE BBB+; Positive (26-Feb-18)	1)CARE BBB+ (30-Nov-16)	1)CARE BBB (24-Dec-15)
2.	Fund-based - LT-Working Capital Demand loan	LT	175.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Aug-18)	1)CARE BBB+; Positive (26-Feb-18)	1)CARE BBB+ (30-Nov-16)	1)CARE BBB (24-Dec-15)
3.	Non-fund-based - ST-BG/LC	ST	252.00	CARE A3+	1)CARE A3+ (03-Aug-18)	1)CARE A3+ (26-Feb-18)	1)CARE A3+ (30-Nov-16)	1)CARE A3 (24-Dec-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691