

Prince Pipes and Fittings Limited

August 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term bank facilities – Term Loans	217.26 (Reduced from Rs. 236.45 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)
Long term bank facilities – Fund Based	175.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)
Short term bank facilities	271.19 (Enhanced from 252 crore)	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	663.45 (Rs. Six Hundred sixty three crore and forty five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook assigned to the bank facilities of Prince Pipes & Fittings Limited (PPF) factors in the deferment of the proposed equity infusion in the form of IPO (Initial Public Offer) beyond March 2018 which has resulted in higher debt levels as compared to debt levels earlier envisaged. However, the company is pursuing with its IPO plans in FY19 and CARE will continue to closely monitor the development with regard to the same.

The ratings assigned to the bank facilities of Prince Pipes & Fittings Limited (PPF) continue to derive strength from its experienced management coupled with long track record of the company in the polymer based pipes & fittings industry, having comprehensive product portfolio coupled with strong brand appeal and entrenched market presence on a pan India basis supported by strategic location of its manufacturing facilities and well-established marketing network. Furthermore, the rating also factors in strength from PPF's above average financial risk profile characterized by steady growth in revenues coupled with stable profitability margins leading to comfortable debt coverage indicators in FY18 (refers to the period April 1 to March 31).

However, the rating strengths are tempered by PPF's leveraged capital structure owing to working capital intensive nature of operations as well as continuous debt funded expansions undertaken in the past, significant capital expenditure (capex) planned as compared to its net-worth leading to project execution risk, profit margins susceptible to volatility in the prices of key raw materials, foreign exchange fluctuations and prevailing intense competition in the pipes and fittings industry.

Any inordinate delay in fructification of the company's plans of equity infusion through the IPO route may result in higher reliance on debt to fund its planned capex and will be a key rating monitorable. Further, the company's ability to increase its scale of operations; improve profit margins amidst increasingly competitive environment and volatile input prices/forex fluctuations while effectively managing its working capital cycle are the other rating sensitivities.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management coupled with long track record of the company in the pipes and fittings industry

PPF is spearheaded by Mr. Jayant Chheda, (Chairman & Managing Director), a first generation entrepreneur having abundance of experience in various segments/aspects of the industry. The company is managed by the Chheda family represented by his sons Mr. Parag Chheda, (Joint Managing Director) and Mr. Vipul Chheda (Director) having two decades of experience in the plastic pipe industry. The directors are well supported by eminent and qualified senior team management professionals from different fields such as Banking, Finance, Operations, etc. PPF has been operating in the pipes and fittings business with presence across various product segments and across the length and breadth of the country since November 13, 1987.

Steady growth in revenues coupled with stable profit margins in FY18

During FY18, the total operating income of PPF registered a y-o-y growth of around 5% due to healthy demand from end user industries viz, agriculture (irrigation) and construction (sewage and plumbing). The growth in revenues is largely attributed to an increase in volume backed by higher penetration of its products within the country. Despite increase in prices of raw materials mainly PVC resins (crude derivative), PPF was able to maintain its PBILDT margins at 12.74% in FY18 as against 13.09% in FY17 as the company effectively managed to pass on the fluctuations in its raw material prices to its distributors. Consequently, PAT margins also remained steady on a y-o-y basis. This has led to increase in gross cash accruals leading to comfortable debt coverage indicators. Interest coverage ratio also improved to 4.75x in FY18 (FY17: 4.57x) on account of higher PBILDT reported by company. Total Debt to GCA, however, deteriorated slightly from 3.83x in FY17 to 4.39x in FY18 as the company availed disbursement of term loans sanctioned for its capex needs.

Comprehensive product portfolio with strong brand presence

The product portfolio of the company is comprehensive marked by its presence in almost the entire value chain catering to diverse end user segments such as plumbing, sewage, agriculture and borewell.

The company manufactures Polyvinyl Chloride (PVC) followed by CPVC (Chlorinated polyvinyl chloride) pipes & fittings, UPVC (Un plasticized Polyvinyl Chloride) PPR (Polypropylene Random) pipes and DWC (Double Wall Corrugated) pipes.

The company promotes its products under the two brands viz 'PRINCE' which is the in-house brand of the company and has been in existence for three decades. Further, company also owns another brand for marketing in Tamilnadu named 'TRUBORE' which is acquired by PPF in October 2012 from Chemplast Sanmar Ltd. 'TRUBORE' has a long history and reputation in Tamilnadu market.

Various accreditations

The company has well-structured manufacturing framework with zero defect manufacturing process by adopting techniques such as Kazen, JIT and TQM thereby ensuring compliance and quality. The company is ISO 90001:2008 and ISO 1452-2:2009 (manufacturing capability certificate) certified and has bagged various accreditations including 'Bloomberg EPC World-2010' for outstanding quality contribution in Pipe Sector.

Pan India player having well-established marketing network backed by strategic location of its manufacturing facilities

The company has strong dealer network across India and has manufacturing units in Athal, Dadra, Haridwar, Kolhapur and Chennai; thereby enabling better market penetration. The company's distribution network spans all over India comprising of around 766 distributors.

Key Rating Weaknesses

Leveraged capital structure

Over the years, PPF has been continuously engaged in organic and inorganic expansion. The company has been refurbishing the unit with new machines of higher capacity, and developing assembly line. The company's total debt increased owing to higher term loan availed for its on-going capex as well as higher reliance on bank borrowings to support the operations of the company. As a result, gearing levels of the company though remained steady at 1.57x as on March 31, 2018 as against 1.59x as on March 31, 2017; yet it remained on the higher side. Going forward, with large scale projects of around Rs.440 crore (including upgradation/modernisation at various plants aggregating to around Rs.68 crore) planned to be implemented majorly from the proceeds of Rs.293 crore from the proposed IPO; any change in plans to fund the projects leading to deterioration in gearing levels is a key rating monitorable.

Project implementation risk

Over the next two years (FY19-FY20), the company is projecting to undertake capex of around Rs.440 crore which includes capex towards the setting up of plant at Jobner, Rajasthan another manufacturing facility at Sangareddy, Telengana, upgradation of its facilities at various plants as well as normal capex. Thus, the size of the projects (excluding normal capex) aggregating to Rs.388 crore is significantly higher than the networth as on March 31, 2018 of Rs.311.50 crore. Besides, as major part of capex is being funded through the proceeds from the proposed IPO; timely infusion of funds as planned from IPO is critical towards the successful implementation of the projects without any time and cost overrun and any change in the project funding pattern leading to deterioration in gearing levels is a key rating monitorable.

Margins susceptible to volatility in raw material prices and foreign exchange fluctuations

PVC resin which is the main raw material for manufacturing of PVC pipes & fittings and Ethylene dichloride (EDC) is the main raw material for the production of PVC. EDC being a derivative of crude; thus the prices of PVC resin are highly susceptible to volatility in crude oil prices. Though the price change in raw material is passed on to the customers, the market price of pipes changes with a time lag and may have an impact on the profitability margins of the company. Thus, PPF's profit margins are susceptible on account of fluctuation in currency prices for the un-hedged portion to an extent .

Low product differentiation resulting into high competition in the pipes and fittings segment

There is intense competition in the pipes and fittings industry especially in the commoditized products segment, marked by low product differentiation which prevents the companies in the sector from prompt pass-through of any increase in input costs to customers. Thus, stiff competition poses a challenge in improving revenues and maintaining margins.

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 & Fittings Ltd. (PPF) is promoted by Chheda family who has over three decades of experience of manufacturing polymer pipes. The company has ISO 9001:2008 certified manufacturing facilities located at Athal, Dadra, Haridwar, Kolhapur & Chennai with total installed capacity of around 2.11 lakh tonnes per annum (TPA) as on August 31, 2017.

Further, PPF uses contract manufacturers in Hajipur (Bihar); Aurangabad (Maharashtra) and Roorkee (Uttarakhand); the installed capacity varies with change in size, mould change, pressure requirements. The company has well-structured manufacturing framework by adopting techniques such as Kaizen, JIT and TQM thereby ensuring compliance and quality

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

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,248.43	1,320.96
PBILDT	163.45	168.27
PAT	65.17	73.50
Overall gearing (times)	1.59	1.57
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.

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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	-	-	October 25, 2023	217.26	CARE BBB+; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	175.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	271.19	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	217.26	CARE BBB+; Stable	-	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+; Positive (26-Feb-18)	1)CARE BBB+ (30-Nov-16)	1)CARE BBB (24-Dec-15)
3.	Non-fund-based - ST-BG/LC	ST	271.19	CARE A3+	-	1)CARE A3+ (26-Feb-18)	1)CARE A3+ (30-Nov-16)	1)CARE A3 (24-Dec-15)

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