Prince Pipes and Fittings Ltd (Revised)

February 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities – Term Loans	236.45 (158.35)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long term bank facilities – Fund Based	175.00 (150.00)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short term bank facilities	252.00 (180.00)	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 reaffirmation of ratings assigned to the bank facilities of Prince Pipes & Fittings Limited (PPF) continues to derive strength from its long track record and extensive experience of the promoters 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 robust financial risk profile characterized by steady growth in revenues coupled with improved profitability margins leading to comfortable debt coverage indicators in FY17 (refers to the period April 1 to March 31) and H1FY18.

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.

Going forward, ability of PPF to improve its capital structure from the proposed IPO along with successful implementation of capex as per the planned funding profile without any time and cost overrun are the key rating sensitivities. 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.

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

Outlook: Positive

The *'Positive'* outlook is assigned on account of proposed equity infusion in the form of IPO in FY18 which is expected to result in improvement in credit risk profile of the company. The outlook maybe revised to *'stable'* if the equity infusion as proposed does not take place within the stipulated time resulting into change in funding profile for its various capex plans.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record coupled with extensive experience of the promoters in the pipes and fittings industry

Incorporated on November 13, 1987, PPF has well established track record of operating of over three decades in the pipes and fittings business with presence across various product segments and across the length and breadth of the country. The company is founded 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.

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.

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 derives around 42% of its overall revenues from the plumbing segment, followed by agricultural products contributing around 36%, Sewage products~21% and remaining from other ancillary products.

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. First brand is '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.

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

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 766 distributors. For FY17, the company's percentage wise total sales revenue included of 40% of sales from north, 26% of sales from south, 25% of sales from west & approx. 9% of sales from eastern part of India.

Steady growth in revenues coupled with improvement in profit margins in FY17 and H1FY18

During FY17, PPF's total operating income grew by 24.67% on a y-o-y basis owing to increase in sale of manufactured goods in the plumbing & piping segment on the back of increase in demand for CPVC products in the segment. The growth in revenues is largely attributed to an increase in volume backed by higher penetration of its products within the country. Besides, PBILDT margins improved to 12.97% in FY17 as compared to 10.15% of FY16 on the back of higher contribution in increase in manufacturing revenues coupled with lower cost of raw materials as a result of lower crude oil prices. Consequently, PAT margins also improved 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 4.54x in FY17 (FY16: 3.09x) on account of higher PBILDT reported by company. Total Debt too GCA also improved to 3.86x in FY17 (FY16: 5.48x) on account of improved gross cash accruals as explained above.

During H1FY18, the company's total operating income remained fairly stable on a y-o-y basis. The profitability margins reported by the company at PBILDT and PAT levels are at 13.57% and at 5.15% respectively.

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 improved marginally from 1.77x as on March 31, 2016 to 1.60x as on March 31, 2017; yet it remained on the higher side. Further, it remained at 1.67x as on September 30, 2017. 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 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 three years (FY18-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.440 crore is significantly higher than the networth as on March 31, 2017 of Rs.236.74 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 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. Further, the import purchases of the company stood at 30.45% of total purchases in FY17. (vis-à-vis 36.49% in FY16), The company hedges its foreign currency exposure and net unhedged portion stood at Rs.25.42 Crore in FY17 (vis-à-vis Rs 14.23 crore in FY16). Thus, PPF's profit margins are susceptible on account of fluctuation in currency prices for the un-hedged portion to an extent .

Intense competition prevailing in the pipes and fittings industry

There is intense competition in the pipes and fittings industry especially in the commoditised 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	1,010.77	1,260.14
PBILDT	102.60	163.38
PAT	31.11	64.76
Overall gearing (times)	1.77	1.60
Interest coverage (times)	3.09	4.54

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: *NA*

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	Date of	Coupon	Maturity	Size of the	Rating assigned

Instrument	Issuance	Rate	Date	Issue (Rs. crore)	along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Oct 25, 2023	236.45	CARE BBB+; Positive
Fund-based - LT-Working Capital Demand loan	-	-	-	175.00	CARE BBB+; Positive
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	236.45	CARE BBB+; Positive	-	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+; Positive	-	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+ (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