

# Prince Pipe and Fittings SUBSCRIBE

## On a steady growth path

Prince Pipes and Fittings Ltd. is one of the leading polymer pipe and fitting manufacturers in India and has 3 decades of experience into manufacturing polymer pipes using four different polymers -UPVC, CPVC, PPR and HDPE. The Company currently has product range of over 7,200 SKU's and products are used for varied applications in plumbing, irrigation and soil waste and rain water (SWR) management etc. With its 6 strategically located manufacturing plants and extensive distribution network of over 1,400, the company has a strong pan India presence. It's focus on creating a strong brand recall has supported healthy sales growth over the years. With an IPO proceeds, the company intends to repay partial debt and expand capacity at Rajasthan and Telangana plants. At an upper price band of Rs 178, the company is fairly valued at 23x PE on FY19 EPS of Rs7.6. We recommend 'Subscribe' to this issue, considering healthy sales growth driven by higher volume and improvement in net profitability driven by lower interest outgo, which strengthens its near term growth prospects.

**Strong brand with extensive product offerings:** Price Pipes is a strong player of domestic pipes segment with 5% market share of organised players and it is the 6<sup>th</sup> largest player in terms of sales at the end of FY19. The company offers 7,200SKUs across pipes and fittings segment. Apart from Supreme Industries, Prince Pipes is the only company which manufactures pipes using all four polymers. The industry is heavily skewed towards retail sales and hence the company too increased its focus on marketing and branding through various initiatives and appointed Mr. Akshay Kumar as brand ambassador.

**Strategically located manufacturing plants and pan India distribution network to aid sales growth:** Logistic has an important role in pipes sales as these companies can only cater to the nearby market. Considering this, Prince Pipes set up manufacturing plants to capture demand in piping and fitting segment. Currently it has 6 manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, Athal and Rajasthan. Considering the growing demand for pipes, Prince Pipes plans to expand capacity at Rajasthan and Telangana. In terms of distribution, currently the company has 1,408 across India, out of which South region has maximum presence with 521 distributors followed by North region with 430 distributors. The company's focus on timely capacity addition and increasing distribution network paves the way for healthy sales growth in future.

|  |   |
|--|---|
| <b>Issuer:</b>                                     | Prince Pipe and Fittings Ltd  |
| <b>Transaction Type</b>                            | Fresh Issue of 14mn equity shares (Face value Rs.10 each)   |
| <b>Issue Open / Close</b>                          | 18-Dec-2019/ 20-Dec-2019,   |
| <b>Type of Offering</b>                            | Fresh Issue and offer for sale  |
| <b>Total Offer Size</b>                            | Rs 500 Cr   |
| <b>Price Band</b>                                  | Rs.177-178  |
| <b>Total Offer Size as % of Post Issue Capital</b> | 25.5%   |
| <b>Percentage of Offer Size (Allocation)</b>       | <ul style="list-style-type: none"> <li>● QIB: 50%</li> <li>● NIB: 15%</li> <li>● Retail: 35%</li> </ul> |

### Share holding pattern

|              | Pre-Issue   | Post-Issue  |
|--------------|-------------|-------------|
| Promoter     | 93.8        | 68.9        |
| Public       | 6.2         | 31.1        |
| <b>Total</b> | <b>100%</b> | <b>100%</b> |

### Financial Snapshot

|                        | FY16   | FY17   | FY18   | FY19   |
|------------------------|--------|--------|--------|--------|
| Revenue                | 10,074 | 12,465 | 13,150 | 15,719 |
| EBITDA                 | 1,002  | 1,651  | 1,694  | 1,930  |
| <i>EBITDA Margin %</i> | 9.9    | 13.2   | 12.9   | 12.3   |
| PAT                    | 295    | 742    | 728    | 834    |
| EPS (Rs.)              | 3.2    | 7.9    | 8.1    | 9.3    |
| <i>EPS Growth (%)</i>  | -      | 146.9  | 2.9    | 14.6   |
| <i>ROE (%)</i>         | 17.4   | 30.7   | 26.4   | 20.5   |
| <i>ROCE (%)</i>        | 14.8   | 24.8   | 20.8   | 22.6   |

Source: RHP, IDBI Capital Research

## Key Strengths

**Strong brand in piping segment with over 30 years:** The Company has more than 30 years of strong legacy in the polymer pipes segment and it markets their product under 2 brands viz Prince Piping system and Trubore. It acquired Trubore brand in October, 2012 which mainly caters into south Market. Prince piping is amongst the top 6 of organized players and had the market share of 5% in FY19.

**Comprehensive Product portfolio across polymers:** The Company has positioned not only in manufacturing of pipes but also supplies end to end piping system. It manufactures polymer pipes using 4 different polymers i.e. UPVC, CPVC, PPR and HDPE and fittings using 3 different polymers i.e. UPVC, CPVC and PPR etc. It has over 7,200 SKU's across different products under each polymer type used in various applications such as plumbing, irrigation and SWR management.

**Strategically located manufacturing facilities:** The company has 6 manufacturing facilities, of which 2 are located in UT of Dadra and Nagar Haveli, one is located in Uttarakhand, one in Chennai, one is located in Maharashtra and one is located in Rajasthan. Due to multi location facilities, company has penetrated well in North, West and South India Market. For FY19, sales coming from North, South, West and East India contributed 38.5%, 26.9% , 23.5% and 10.9% of the total sales respectively.

**Brand Building through various market initiatives:** In November, 2016, the company launched a loyalty program called 'Prince Udaan' to connect with and reward distributors, retailers, wholesalers and plumbers. Under this loyalty program buyer of Prince Pipes product receive reward points on every purchase and that can redeem the points against a number of gifts available. It also plans to increase the visibility of its products and brand by leveraging celebrity brand ambassador through exposure across various touch points.

**Large and growing distribution network:** The company has pan-India presence in terms of distributors for Prince Piping system products and Trubore brand products have strong presence in South India Market. Currently, the total distributors are around 1,408 across India. Out of which South region has maximum presence with 521 distributors followed by North region with 430 distributors. East and West region have 197 and 260 distributors respectively. Out of 1,408 distributors, 257 are selling products under Trubore brand in South Market and 1,151 distributors are selling product under prince pipe system brand across India.

**Technical collaboration with reputed International players:** The company has technical collaboration with Wavin Overseas B.V based in Netherland which has been providing the technology and Know –how in manufacturing of products over the last 5 years. This results in quality improvement and manufacturing efficiency improvement.

## Key Risks:

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**Demand of irrigation related products is influenced by growth of agriculture segment:** The level of growth in the agriculture segment is majorly impacted by the monsoon every year. The impact of monsoon is critical for rabi crops as it has an impact on ground water and reservoirs which are critical for irrigation of rabi crops. Any reduction in agriculture segment due to monsoon could have adverse effect on demand of products used in irrigation. Therefore impacting the company's Business.

**Substitute of products led to reduction in demand for the company's product:** The company can face the competition from many substitute products such as plumbing products can be replaced by PEX (cross linked polythene) product, ABS (acrylonitrile butadiene styrene) products, MDPE (medium density polyethene) products. Irrigation product can be replaced with HDPE and concrete reinforced products and SWR management product can be replaced with caste Iron and composite products. Increase in the preference of any of these substitutes led to reduction in demand of company's product and hence impacting company's performance.

**Credit and non-payment risk of distributors :** The majority of the sales are to distributors on an open credit basis with standard payment period between 15-30 days. Company experienced losses because distributors are unable to pay. As of June 30, 2019 total trade receivables amount was Rs1,904 mn out of which Rs60 mn was outstanding for a period exceeding 6 months. If Company is unable to collect receivables, it could have adverse affect of the company's performance and its business operations.

**Exhibit 1: Details of Shareholding Pattern:**

| Entity                              | Pre-Issue Shareholding |                  | Post-Issue Shareholding |                  |
|-------------------------------------|------------------------|------------------|-------------------------|------------------|
|                                     | Number of Shares held  | Shareholding (%) | Number of Shares held   | Shareholding (%) |
| <b>Promoters and Promoter Group</b> |                        |                  |                         |                  |
| Prince Pipe                         | 90,015,000             | 93.8             | 75,890,706              | 68.9             |
| Public                              | 5,965,000              | 6.2              | 34,213,588              | 31.1             |
| <b>Total</b>                        | <b>95,980,000</b>      | <b>100</b>       | <b>110,104,294</b>      | <b>100</b>       |

Source: Company; IDBI Capital Research

## Company Background

Prince Pipes and Fittings Ltd is recognized as one of the leading polymer pipe and fitting manufacturers in India. It manufactures polymer pipes using four different polymers such as UPVC, CPVC, PPR and HDPE and fittings using 3 different polymers such as UPVC, CPVC and PPR etc. and caters to both rural and urban markets. It has more than 30 years of experience in polymer pipes segment.

The Company currently has product range of over 7,200 SKU's and products are used for varied applications in plumbing, irrigation and soil waste and rain water (SWR) management etc.

### Strategically located manufacturing facilities

The Company currently has 6 manufacturing facilities across India

1. Athal (UT of Dadra and Nagar Haveli)
2. Dadra (UT of Dadra and Nagar Haveli)
3. Haridwar (Uttarakhand)
4. Chennai (Tamil Nadu)
5. Kohlapur (Maharashtra)
6. Jobner (Rajasthan)

### Strong Distribution Network

With over 1,408 distributors, spread across different region and have maximum presence in North and South India. The Company has 1,151 distributors under Prince brand and 257 distributors under Trubore brand. Trubore brand has only presence in south India whereas Prince brand has pan India presence. Each distributor has over 400 touch points and the top 20 distributors contribute 15% of the total sales.

Out of 1,408 distributors, 75-80% is exclusive distributors and fittings segment has more exclusive dealers than piping segment.

The company currently has 11 warehouses located in Bhubaneshwar (Odisha), Ghaziabad (Uttar Pradesh), Tiruchirapalli (Tamil Nadu), Palakkad (Kerala), Hubli (Karnataka), Howrah (West Bengal), Siliguri (West Bengal), Vijaywada (Andhra Pradesh), Chennai (Tamil Nadu), Nagpur (Maharashtra) and Hyderabad etc. Each Warehouse is on lease.

**Exhibit 2: Diversified Presence across India**

| Region       | No of Distributors |
|--------------|--------------------|
| North        | 430                |
| West         | 260                |
| East         | 197                |
| South        | 521                |
| <b>Total</b> | <b>1,408</b>       |

Source: Company; IDBI Capital Research

The company currently has 6 manufacturing plants. As on 31<sup>st</sup> October 2019, the total installed capacity of the company stands at 241,211MT per annum. It has set up its new manufacturing plant in Jobner (Rajasthan) just 90 days back with an installed capacity of 6,221MTPA. The plant has constructed in such a manner that capacity can be increased upto 40,621MTPA and plans to increase its capacity to 17,021MTPA in Rajasthan Plant by 31<sup>st</sup> December 2019 and to 20,909MTPA by end of FY20. Apart from that, the Company has 5 contract manufacturers of which 2 are in Aurangabad (Maharashtra), 1 in Guntur (Andhra Pradesh) and 1 in Balasore (Odisha) and 1 in Hajipur (Bihar).

**Exhibit 3: Manufacturing plants and its capacities**

|                       | Installed Capacity (TPA) | Production capacity (TPA) | Products           | Year of Establishment |
|-----------------------|--------------------------|---------------------------|--------------------|-----------------------|
| Haridwar Plant        | 77,588                   | 60,383                    | Pipes and fittings | 2008                  |
| Dadra Plant           | 59,232                   | 44,989                    | Pipes              | 2000                  |
| Chennai Plant         | 62,143                   | 46,518                    | Pipes              | 2012                  |
| Kolhapur plant        | 20,045                   | 15,334                    | Pipes              | 2012                  |
| Athal Plant           | 15,982                   | 13,555                    | Fittings           | 1995                  |
| Rajasthan Plant       | 6,221                    | 4,759                     | Pipes              | 2019                  |
| <b>Total capacity</b> | <b>241,211</b>           | <b>185,538</b>            |                    |                       |

Source: Company; IDBI Capital Research

### Proposed New Plant

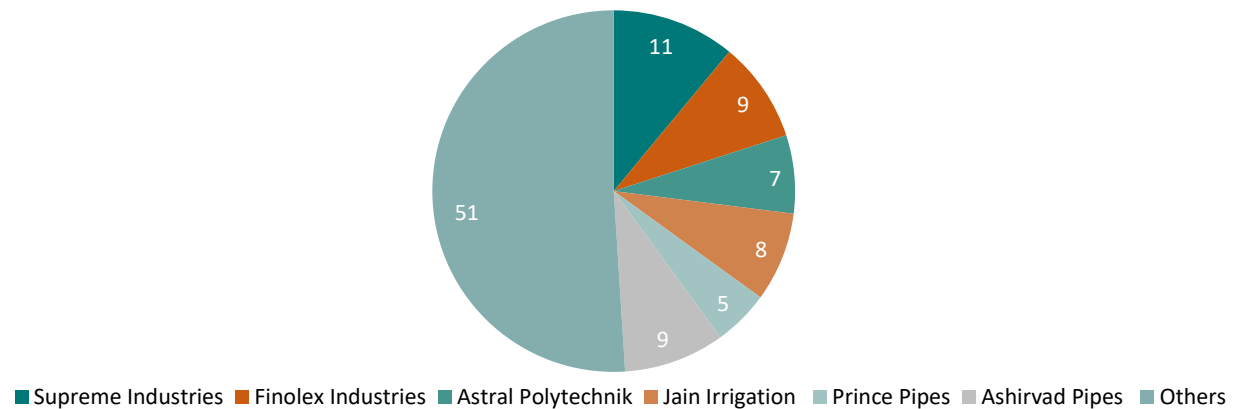
The company is all set to introduce new plant at Sangareddy (Telangana) with a total installed estimated capacity of 51,943MTPA which will be operational by FY21. Currently it caters to south market mainly by two plants i.e. Athal plant and Haridwar plant. Opening of new plant in Telangana will help the company to have effective presence in south India market.

#### Exhibit 4: Proposed new plant in Telangana

| Parameters  | Telangana Plant                            |
|---|--|
| Forecasted Installed Capacity ( in TPA)               | 51,943                                     |
| No of Machines  | 58   |
| Products  | UPVC/CPVC/DWC pipes and UPVC/CPVC fittings |
| Area of Land (sq. mtr)                                | 183,241                                    |
| Area of land on which plant is to be located (sq.mtr) | 99,390                                     |
| Planned commencement of operation                     | FY21                                       |
| Owned/Leased  | Owned                                      |
| Estimated total cost (incl. cost of land)             | Rs. 1,961 million                          |

Source: Company; IDBI Capital Research

#### Exhibit 5: Market Share in FY19



Source: Company; IDBI Capital Research

The organized segment in the pipes and fittings industry accounts for 60-65% of country's plastic pipes industry. Supreme Industries is the market leader in terms of highest market share i.e. 11% in organized segment followed by Finolex Industries (9%) and Ashirwad Pipes (9%). Prince Pipe and fitting enjoys 5% market share in FY19 which has increased from 4.5% in FY16.

**Exhibit 6: Key Management profile**

| Name                        | Designation                              | Profile   |
|-----------------------------|--|---|
| Mr Jayant Shamji Chheda     | Chairman and Managing Director           | He has passed the senior Secondary Certification Examination. He has over 3 decade of experience in the plastic Industry. He has been associated with the company since incorporation as a Director. He was awarded the Lifetime Achievement Award at the Vinyl India Conference, 2014.   |
| Mr Parag Jayant Chheda      | Executive Director                       | He holds an associate degree in Business Administration from Oakland community college. He has over 21 year of experience in Piping Industry. He has been associated with company since April 27, 1996 as a Director. He was awarded the 'Inspiring Business Leader Award' at the Economic Times Summit, 2016 for the 'Business and Industry' Sector  |
| Mr Vipul Jayant Chheda      | Executive Director                       | He holds a higher secondary certificate from the Maharashtra State Board of Secondary and Higher secondary Education. He has over 20 years of experience in piping industry.  |
| Mr Shyam Kishanchand sharda | Chief Financial Officer                  | He holds a bachelor's degree in Commerce from Jodhpur (Rajasthan) University. He is also an associate of the Indian Institute of Chartered Accountants of India. He joined the company on January 21, 2015. He has previously worked with S. Kumar nationwide Ltd as a senior vice president – Finance, United Phosphorus Ltd as deputy General Manager – Finance. He has over 20 Years of experience in the field of finance, accounts and taxation. |
| Mr Pravin Jogani            | Company secretary and Compliance officer | He holds the Bachelor of Management studies Degree from University of Mumbai and Bachelor degree in Law from Mumbai University. He joined the company on December 2, 2019 as a Senior Manager (Secretarial). He has previously worked with NRB Industrial bearings Ltd., Raymonds Ltd, L&T Finance Ltd. He has over 8 Year of experience in the field of Secretarial and Compliance.  |
| Mr Virender Singh Baweja    | Chief Operating Officer                  | He holds a bachelor of engineering degree from Punjab Technical University and Master of Business Administration degree from IIT, Roorkee. He has been employed with the company since July 26, 2019. Previously, he worked with Eicher Motors Ltd as a Deputy Manager –IT and with Hindustan Unilever Ltd as head GCO Big Rock Programme.  |

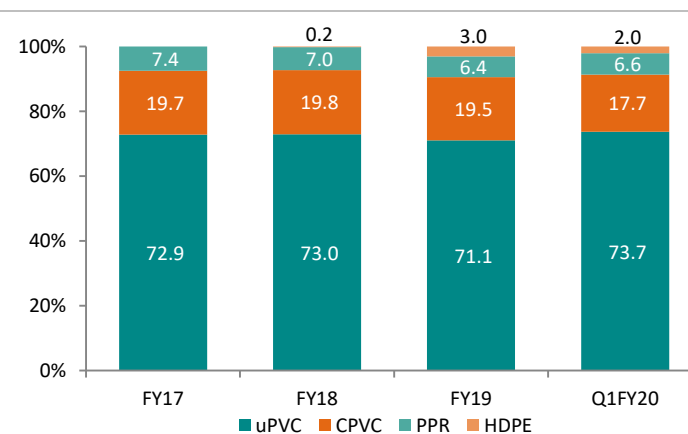


## Net sales Breakup

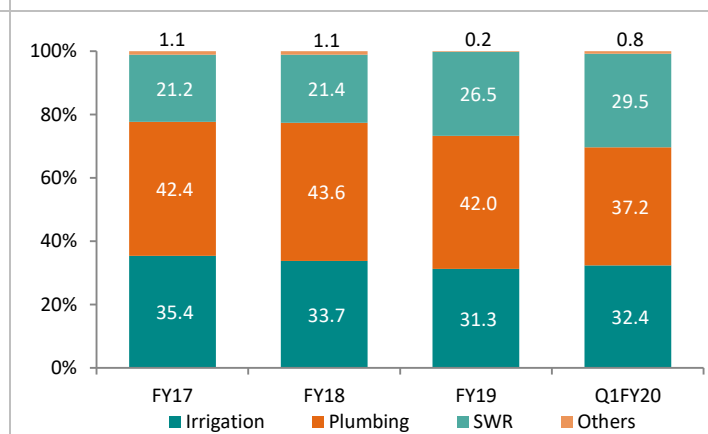
**Exhibit 7: Net sales breakup by region**

| % of Net sales | FY19 | Q1FY20 |
|----------------|------|--------|
| North          | 38.6 | 34.8   |
| West           | 26.9 | 26.7   |
| East           | 23.5 | 22.8   |
| South          | 11.0 | 15.7   |

Source: Company; IDBI Capital Research

**Exhibit 8: Net sales Breakup by Polymers**


Source: Company; IDBI Capital Research

**Exhibit 9: Net sales breakup by end use industry**


**Exhibit 10: Segmental Revenue (Plastic Pipes) over last 5 Years**

| Particulars (in Rs mn)   | FY15   | FY16   | FY17   | FY18   | FY19   | CAGR (%)<br>(FY15-19) |
|--------------------------|--------|--------|--------|--------|--------|-----------------------|
| Prince Pipe and Fittings | 9,572  | 10,090 | 12,626 | 13,205 | 15,719 | 13                    |
| Supreme Industries       | 22,663 | 16,298 | 24,670 | 27,285 | 31,728 | 9                     |
| Finolex Industries       | 16,395 | 20,305 | 22,169 | 23,288 | 25,748 | 12                    |
| Astral Polytechnik       | 12,526 | 13,180 | 14,767 | 16,109 | 19,175 | 11                    |
| Ashirwad Pipes           | 14,002 | 16,141 | 20,287 | 24,299 | 26,728 | 18                    |
| Jain Irrigation          | 13,819 | 15,329 | 16,445 | 19,688 | 21,838 | 12                    |

Source: Company; IDBI Capital Research

**Exhibit 11: Segmental EBIT margins (Plastic Pipes)**

| Particulars (%)          | FY16 | FY17 | FY18 | FY19 |
|--------------------------|------|------|------|------|
| Prince Pipe and Fittings | 6.9  | 10.4 | 9.5  | 9.3  |
| Supreme Industries       | 10.3 | 13.6 | 11.5 | 9.9  |
| Finolex Industries       | 8.8  | 8.0  | 5.8  | 7.1  |
| Astral Polytechnik       | 9.9  | 11.2 | 11.8 | 12.8 |
| Ashirwad Pipes           | 12.4 | 17.4 | 18.1 | 16.0 |
| Jain Irrigation          | 10.8 | 10.2 | 8.4  | 8.6  |

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

| Year-end: March                   | FY16          | FY17          | FY18          | FY19          |
|-----------------------------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>                  | <b>10,074</b> | <b>12,465</b> | <b>13,150</b> | <b>15,719</b> |
| Operating Expense                 | 9,077         | 10,839        | 11,517        | 13,860        |
| Cost of Material Consumed         | 7,047         | 8,365         | 8,938         | 10,729        |
| <b>Purchase of stock in Trade</b> | <b>327</b>    | <b>1,075</b>  | <b>462</b>    | <b>341</b>    |
| <i>Change in inv. Of FG, WIP</i>  | <i>87</i>     | <i>(550)</i>  | <i>(186)</i>  | <i>204</i>    |
| Employee Benefit Expense          | 527           | 610           | 726           | 783           |
| Other expense                     | 1,089         | 1,338         | 1,577         | 1,803         |
| <b>EBITDA</b>                     | <b>1,002</b>  | <b>1,651</b>  | <b>1,694</b>  | <b>1,930</b>  |
| Depreciation                      | 297           | 328           | 381           | 452           |
| <b>EBIT</b>                       | <b>705</b>    | <b>1,323</b>  | <b>1,313</b>  | <b>1,479</b>  |
| Interest paid                     | 335           | 364           | 361           | 364           |
| Other income                      | 6             | 25            | 60            | 71            |
| <b>Exceptional Item</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| <b>Pre-tax profit</b>             | <b>370</b>    | <b>959</b>    | <b>952</b>    | <b>1,115</b>  |
| Tax                               | 75            | 217           | 224           | 281           |
| Current Tax                       | 82            | 209           | 215           | 272           |
| Deferred Tax                      | (7)           | 8             | 9             | 9             |
| <b>Net profit</b>                 | <b>295</b>    | <b>742</b>    | <b>728</b>    | <b>834</b>    |
| <i>EPS (Rs.)</i>                  | <i>3.2</i>    | <i>7.9</i>    | <i>8.1</i>    | <i>9.3</i>    |

### Balance Sheet

(Rs mn)

| Year-end: March                       | FY16         | FY17         | FY18         | FY19          |
|---------------------------------------|--------------|--------------|--------------|---------------|
| Property Plant and Equipment          | 2,314        | 2,637        | 3,324        | 3,595         |
| Capital WIP                           | 141          | 180          | 147          | 615           |
| Right of Use asset                    | 22           | 11           | 78           | 62            |
| Good Will                             | 3            | 3            | 3            | 3             |
| Intangible Assets                     | 36           | 35           | 42           | 36            |
| Investment                            | 15           | 7            | 7            | 8             |
| Loans                                 | 58           | 55           | 76           | 77            |
| Other non-current Assets              | 26           | 14           | 692          | 669           |
| Inventories                           | 1,005        | 1,742        | 2,415        | 2,011         |
| Trade Receivables                     | 2,390        | 2,367        | 2,394        | 2,504         |
| Cash and Bank balance                 | 86           | 124          | 96           | 223           |
| Other current Assets                  | 423          | 405          | 454          | 597           |
| Income Tax Assets                     | 15           | 24           | -            | 5             |
| Asset held for sale                   | -            | -            | 71           | -             |
| <b>Total Assets</b>                   | <b>6,533</b> | <b>7,605</b> | <b>9,799</b> | <b>10,404</b> |
| <b>Share capital</b>                  | <b>480</b>   | <b>450</b>   | <b>900</b>   | <b>900</b>    |
| Other Equity                          | 1,362        | 1,975        | 2,266        | 3,108         |
| Non-current borrowings                | 895          | 1,058        | 1,462        | 1,058         |
| Lease Liabilities                     | 9            | -            | 61           | 44            |
| Long term Provisions                  | 43           | 45           | 69           | 78            |
| Other liabilities                     | 140          | 155          | 167          | 160           |
| Deferred tax liabilities              | 109          | 117          | 127          | 135           |
| Current Borrowings                    | 1,859        | 1,888        | 1,698        | 1,457         |
| Lease Liabilities                     | 11           | 9            | 18           | 17            |
| Trade Payables                        | 991          | 1,021        | 1,970        | 2,152         |
| Provisions                            | 21           | 24           | 12           | 16            |
| Other current Liabilities             | 614          | 863          | 1,049        | 1,279         |
| <b>Total Liabilities</b>              | <b>4,691</b> | <b>5,180</b> | <b>6,633</b> | <b>6,396</b>  |
| <b>Total equity &amp; liabilities</b> | <b>6,533</b> | <b>7,605</b> | <b>9,799</b> | <b>10,404</b> |



# Notes

|         |                   |                         |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

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