

Company Overview

Prince Pipes is one of the leading polymer pipes and fittings manufacturers in India in terms of number of distributors (Source: CRISIL Research Report). They market its products under two brand names: Prince Piping Systems; and Trubore. They have more than 30 years' experience in the polymer pipes segment. They currently manufacture polymer pipes using four different polymers: UPVC (unplasticized polyvinyl chloride); CPVC(Chlorinated polyvinyl chloride); PPR(Polypropylene Random Copolymer); and HDPE(High-density polyethylene), and fittings using three different polymers: UPVC; CPVC ; and PPR. As at October 31, 2019, it had a product range of 7,167 SKUs. Its products are used for varied applications in plumbing, irrigation, and soil, waste and rain water ("SWR") management. Their product range meets the requirements of both the rural and urban markets. They have six strategically located manufacturing plants, which give them a strong presence in North, West and South India. They also use five contract manufacturers, of which two are in Aurangabad (Maharashtra), one is in Guntur (Andhra Pradesh), one is in Balasore (Odisha) and one is in Hajipur (Bihar).

Objects of Issue

(a) Repayment or prepayment of certain outstanding loans of the company; (b) Financing the project cost towards establishment of a new manufacturing facility; (c) Upgradation of equipment at the manufacturing facilities; and (d) General corporate purposes, subject to the applicable laws.

Rationale

Increasing Raw Material Costs

Their primary raw materials comprise UPVC, CPVC, PPR and HDPE resins, which are derived from crude oil by-products. Crude oil prices are volatile and any increases in the price of crude oil would lead to increases in the prices of the raw materials required to manufacture products. They have not entered into any long-term supply contracts for such raw materials and, therefore are subject to the risk of increases in the costs of UPVC, CPVC, PPR and HDPE resins and the depreciation of the Rupee against the U.S. dollar. Their costs of raw materials as a percentage of revenue from operations is dependent on the costs of raw materials as well as the mix of products sold. For Fiscals 2017, 2018 and 2019 and the three-month period ended June 30, 2019 cost of materials consumed was ₹ 8,364.74 million, ₹ 8,938.14 million, ₹ 10,728.59 million and ₹ 2,789.92 million, respectively, representing 62.89%, 67.69%, 68.25% and 73.46% of revenue from operations, respectively.

Outstanding Litigation against the company

Two of the company's Promoters, Jayant Shamji Chheda (Chairman and Managing Director), and Heena Parag Chheda, are also partners in M/s Aditya Developers , a partnership firm that forms a part of Promoter Group, in which they each own a 10% interest. Aditya had entered into a joint venture agreement dated December 30, 2010 with Montana Developers Private Limited. Montana initiated arbitration proceedings against Aditya and its partners, including Jayant Shamji Chheda and Heena Parag Chheda, seeking, *inter alia*, specific performance of all the obligations under the JV Agreement along with damages from Aditya and its partners. It cannot be assured that an adverse order in relation to the Claim will not be passed which may lead to the 2 promoters jointly and severally being subjected to pay damages to the full extent as claimed by Montana, i.e., up to ₹ 9,046.40 million, along with applicable interest.

Valuation and Outlook

The management in the analyst meet said that the Q2 performance along with the outlook ahead was good, however, we feel that Prince Pipes and fittings is expensively priced at 20.6x P/E (weighted average EPS taken) and 3.4x Price to book. We feel that there are much better players already listed such as Finolex Industries which trades at 19.6x P/E and 1.8x price to book having better return ratios and comfortable debt levels. Therefore, taking into account its debt position and the increased competitiveness of the market it operates in , the stock does not look attractive. We give 'Avoid' rating for the IPO.

Issue Details

Offer Period	Dec 18 - Dec 20 2019
Price Band	INR.177 to INR.178
Bid Lot	84
Listing	BSE&NSE
Issue Size (no. of shares in mn)	28.1
Issue Size (Rs. in bn)	5.0
Face Value	10

Issue Structure

QIB	50%
Retail	15%
HNI	35%
BRLM	Edelweiss Capital Limited, JM Financial Consultants Private Limited
Registrar	Link Intime India Private Ltd

Particulars Pre Issue % Post Issue %

Promoter	90.06%	65.87%
Public	9.94%	34.13%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Prince Pipes and Fittings

Income Statement (Millions)

Particulars	FY18	FY19	Q1FY20 (June 19)
Revenue from operations	13,205.45	15,718.69	3,797.66
Other Income	60.26	71.26	4.26
Total Revenue	13,265.71	15,789.95	3,801.92
Expenses:			
Cost of Materials Consumed	8,938.14	10,728.59	2,789.92
Purchase of Stock-in-Trade	461.74	340.84	62.62
Changes in Inventories of Finished Goods, Stock-in-Trade and Work-in-Progress	(185.60)	204.18	(163.51)
Excise duty	55.05	-	-
Employee Benefit Expense	725.61	783.31	197.83
Finance Cost	361.08	364.00	73.85
Depreciation and Amortization Expenses	380.88	451.64	118.23
Other Expenses	1,577.14	1,802.71	383.67
Total Expenses	12,314.04	14,675.27	3,462.61
Profit before exceptional items and tax	951.67	1,114.68	339.31
Profit before tax	951.67	1,114.68	339.31
Total Tax Expense	224.01	281.17	72.62
Profit for the year	727.66	833.51	266.69
Total Other Comprehensive Income	5.51	(1.04)	2.36
Total Comprehensive Income for the year	733.17	832.47	269.05
Earning per equity share (Face Value per Share Rs 10 each)			
Basic (in ₹)	8.08	9.26	2.96
Diluted (in ₹)	8.08	9.26	2.96

Cash Flow Statement (Millions)

Particulars	FY18	FY19	Q1FY20
Cash Flow from operating activities	1,622.39	2,204.90	302.88
Cash flow from investing activities	(1,702.63)	(1,050.58)	(319.03)
Cash flow from financing activities	55.37	(1,067.73)	(70.21)
Net increase/(decrease) in cash and cash equivalents	(24.87)	86.59	(86.36)
Cash and cash equivalents at the beginning of the period	27.18	2.31	88.90
Cash and cash equivalents at the end of the period	2.31	88.90	2.54

Source: Company, BP Equities Research

Prince Pipes and Fittings

Balance Sheet (Millions)

Particulars	FY18	FY19	Q1FY20
Assets			
Non-Current Assets			
Property, plant and equipment	3323.72	3595.11	3601.26
Capital Work in progress	146.77	615.08	765.85
Right of use assets	78.30	62.37	58.39
Other non-current assets	692.25	582.19	622.55
Total Non-Current Assets	4,366.31	5,062.03	5,261.13
Current Assets			
Inventories	2,415.17	2,010.56	2,186.58
Trade Receivables	2,393.93	2,503.61	1,904.77
Other balances with Banks	93.98	134.25	127.60
Other Current assets	451.08	595.91	657.06
Total Current Assets	5,432.46	5,342.10	4,883.44
Total Assets	9,798.77	10,404.13	10,144.57
EQUITY AND LIABILITIES			
Equity			
Equity Share Capital	900.16	900.16	900.16
Other Equity	2,265.63	3,107.51	3,378.40
Total Equity	3,165.79	4,007.67	4,278.56
Non-Current Liabilities			
Borrowings	1,461.86	1,057.69	981.82
Other Financial Liabilities	162.04	160.29	160.80
Deferred Tax liabilities (Net)	127.49	135.49	114.18
Total Non-Current Liabilities	1,885.91	1,475.58	1,381.59
Current Liabilities			
Borrowings	1,698.33	1,456.78	1,609.34
Trade Payables – Other than MSME	1,919.98	2,105.52	1,671.18
Other Liabilities	57.96	164.68	81.26
Total Current Liabilities	4,747.07	4,920.89	4,484.42
Total Liabilities	6,632.98	6,396.47	5,886.01
Total Equity and Liabilities	9,798.77	10,404.13	10,144.57

Source: Company, BP Equities Research

Key Risks

- ☐ Inability to service debt may lead to weak financial performance.
- ☐ Increased competition from its peers.
- ☐ The financial ratios may decline if the company is not able to give superior performance in the given environment..

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