

# Prince Pipes Ltd

## Valuation discount to peers and industry tailwind to provide listing gain

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### 6<sup>th</sup> largest pipe player with strong industrywide tailwind

- Prince, 6<sup>th</sup> largest pipe player in the industry with largest SKUs of fittings, is well placed to capitalize on ongoing megatrend of unorganized to organized, higher irrigation spending, replacement and new demand from plumbing/drainage.
- With EBITDA margin at 12% vs. 14%-16% for Supreme/Astral there is likely upside in margin with operating leverage.
- IPO is to fund Telangana plant (Rs 2bn) and to reduce leverage at Promoter group level; Pre-money at FY19 EV/EBITDA of 11x, P/E of 20x; 20%-80% gap with peers provides one-time valuation jump to IPO investors
- Key Risk – Not able to scale-up DWC, anti-dumping on CPVC resin to impact near term margin.

**6<sup>th</sup> largest pipe player:** Prince is 6<sup>th</sup> largest player with ~6% revenue share in Pipe industry which is growing at 1.2-1.5x of GDP; shift from unorganized to organized and weak financial profile of some large players like Jain Irrigation, Kisaan, Skipper has allowed strong players to gain market share and Prince pipe with it diversified and wide product offerings is likely to benefit from the same.

**Improvement in EBITDA could be key growth driver:** Volume grew at 14% CAGR between FY16-19 similar to peers and driven by CPVC/PPR. Astral/Supreme/Ashirwad has margin in range of 14%-16% vs 12% of Prince. With PVC being 74% of volume mix, high margin CPVC/PPR will have higher growth rate and this will improve margins over longer term.

**Improvement in working capital:** Over last 3 years, receivable days declined by 30 days to 58 days (partly driven by channel financing) and this along with control over inventory led to absolute NWC increased 12% only vs 56% increase in revenue. OCF was strong at Rs 1.6bn average and CFO/EBITDA conversion was at healthy 0.9x.

**Significant investment in DWC so far but very low utilization:** Prince was one of the first large player to focus on large diameter DWC pipe which will replace cement/metal pipe used for sewerage and drainage. It has put significant investment (Rs 0.5bn) in DWC pipe with capacity of 42,000 MT but FY19 revenue was only Rs 471mn. If DWC pipes doesn't get acceptance from state/municipalities utilization will be a drag. Overall utilization is also low at 52% vs 65-75% for listed peers.

**Near term weakness:** Prince has ~40% sales from North India vs. 20-30% for other players. Construction ban in certain areas in North India will impact near term growth. Post anti-dumping duty on CPVC resin from China/Korea, Prince was forced to raise CPVC price higher than others and this will impact growth/profitability.

**Higher related party transaction:** Promoter group entities has Rs 1.9bn of debt on books. Secondary sale of Rs 2.5bn in IPO will be used to reduce the same. Prince has purchased corporate office from 1) Prince Marketing for Rs 0.45bn and 2) ~18%/14%/1% of RM from Ace Polyplast in last 3 years. Additionally, there is a dispute going on trademark "Prince Piping System" between company and Prince SWR which is owned by relative of the promoter. Also, promoter has financial investment in multiple real estate projects which has led to disputes in the past.

### Financials

Rs. Mn	Sales	EBITDA	Recurring PAT	EPS	ROE (%)	Core ROIC (%)	EBITDA Margin (%)
YE Mar							
FY16A	10,074	980	296	6.2	18%	13%	10%
FY17A	12,465	1,626	764	17.0	36%	21%	13%
FY18A	13,150	1,633	753	8.4	27%	16%	12%
FY19A	15,719	1,859	840	9.3	23%	16%	12%

### Issue Details

#### Equity Shares aggregating upto Rs 5bn

- Fresh Issue of Equity shares aggregating upto Rs 2.5bn
- Offer for sale of Equity shares aggregating upto Rs 2.5bn

### Issue Highlights

Issue Size	Rs 5bn
No. of shares	28,089,886 – 28,248,586
Face Value	Rs 10/share
Price Band	Rs 177-178
Bid Lot	84 shares & multiples
Post Issue Market Cap	~Rs 19.5-19.6bn
BRLMs	JM Financial, Edelweiss Financial
Registrar	Link Intime India Pvt. Ltd.
Issue open date	18 <sup>th</sup> Dec'19
Issue Close Date	20 <sup>th</sup> Dec'19

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	90.06%	65.80%
Public	9.94%	34.2%
Total	100%	100%

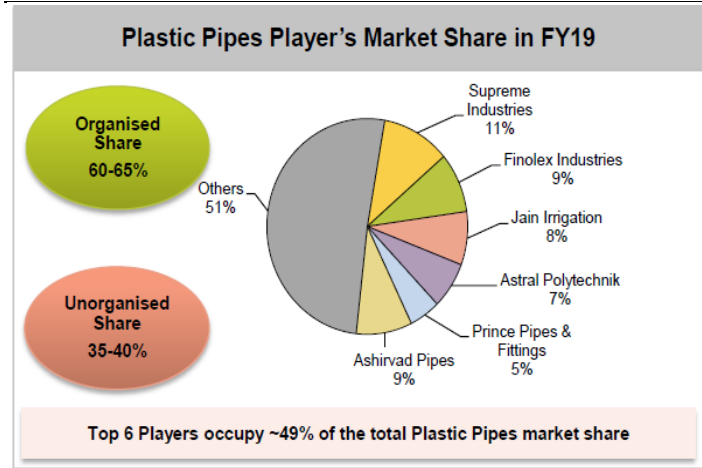
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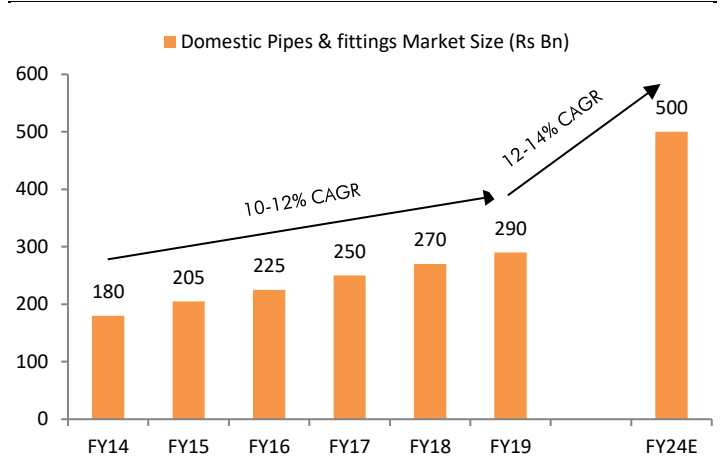
## Pipe industry has strong tailwind for large organized players

Exhibit 1: 6<sup>th</sup> largest pipe player with ~5% market share of total market



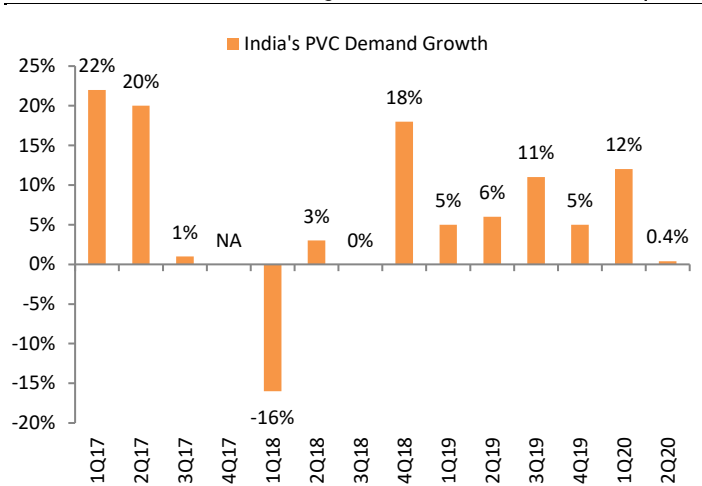
Source: Company Data, Equirus

Exhibit 2: PVC Pipe has been growing at 1.2-1.5x of GDP



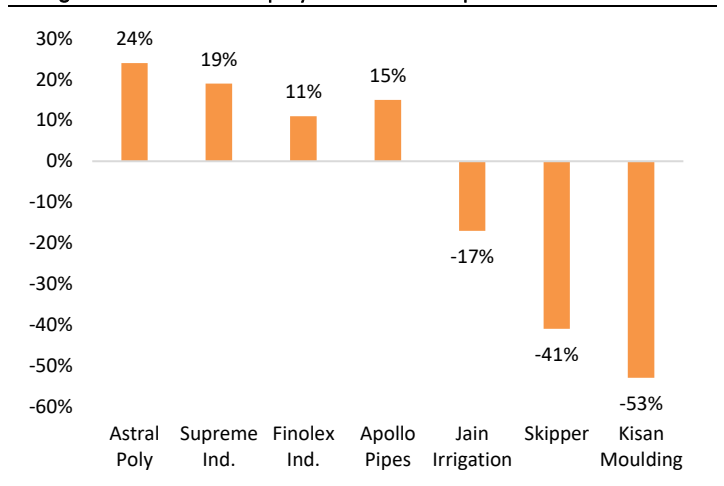
Source: Company Data, Equirus

Exhibit 3: India's PVC demand growth has slowed down recently



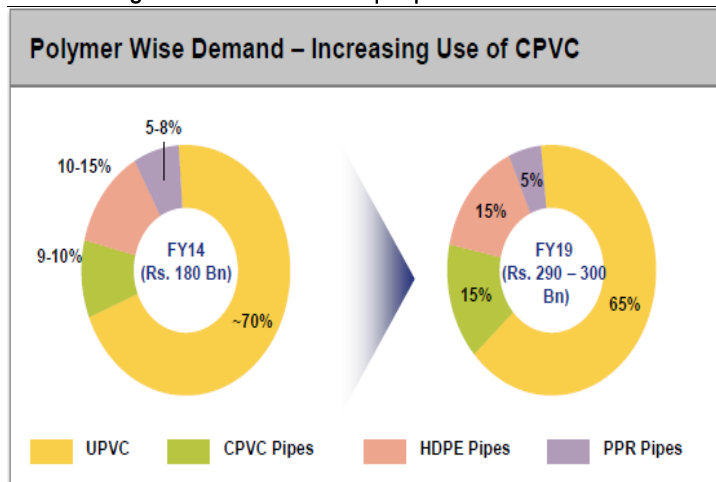
Source: Reliance, Equirus

Exhibit 4: Strong 1HFY20 revenue growth for large organize players as unorganized and levered players were under pressure



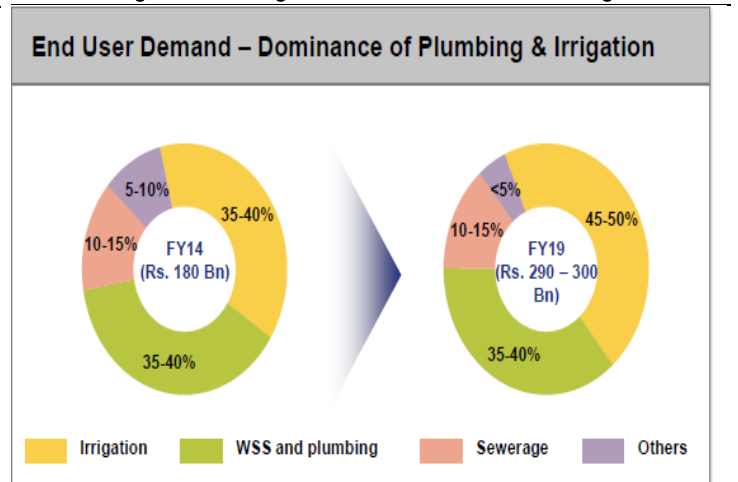
Source: Equirus

Exhibit 5: CPVC is fastest growing among pipes but PVC will remain largest due to relative cheaper prices



Source: Company Data, Equirus

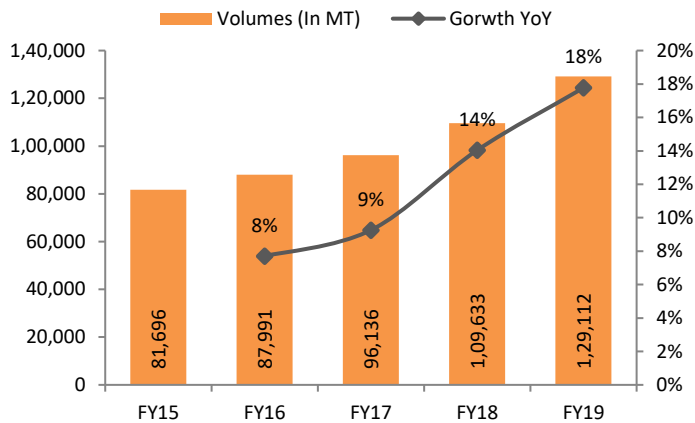
Exhibit 6: Irrigation is strong in South-West and seasonal segment



Source: Company Data, Equirus

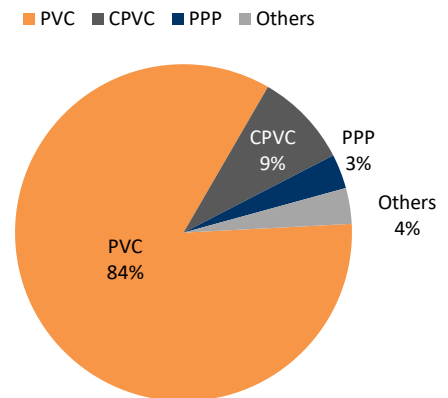
## Prince has diversified and wide product mix

Exhibit 7: Prince Volume growth; CPVC is fastest growing



Source: Company Data, Equirus

Exhibit 8: Product mix is closer to Supreme Industries than Finolex/Astral



Source: Equirus

Exhibit 9: Prince Pipes Product Portfolio; Largest in PPR, 4<sup>th</sup> largest in CPVC and 6<sup>th</sup> largest in PVC

Plumbing	Sewage Disposal	Irrigation / Agriculture	Key Brands
<b>RAINFIT™</b> Roofwater Systems for Collection & Disposal UPVC	<b>ULTRAFIT™</b> IJERT Systems With World Class Tests UPVC	<b>AQUAFIT™</b> Agri Pressure & Non Pressure Piping Systems UPVC	<b>PRINCE®</b> PIPING SYSTEMS  <b>TRUBORE</b> PIPING SYSTEMS
<b>EASYFIT™</b> UPVC Plumbing Systems for Easy Installation UPVC	<b>SILENTFIT™</b> Low Noise SDRP Piping Systems UPVC	<b>SAFEFIT™</b> Borewell Systems for Groundwater Extraction UPVC	
<b>SMARTFIT™</b> CPVC Plumbing Systems for Hot & Cold Water CPVC	<b>FOAMFIT™</b> Underground Drainage Pipes that withstands Heavy Load UPVC		
<b>GREENFIT™</b> PPR Plumbing Systems for Extreme Temperature PPR	<b>DRAINFIT™</b> UPVC Underground Drainage Piping Systems UPVC		
	<b>CORFIT™</b> Underground Double Wall Corrugated Pipes HDPE		
	<b>DURAFIT™</b> Durable Manhole & Chamber Covers Others		

As at October 31, 2019, Company had 7,167 SKUs across various polymers

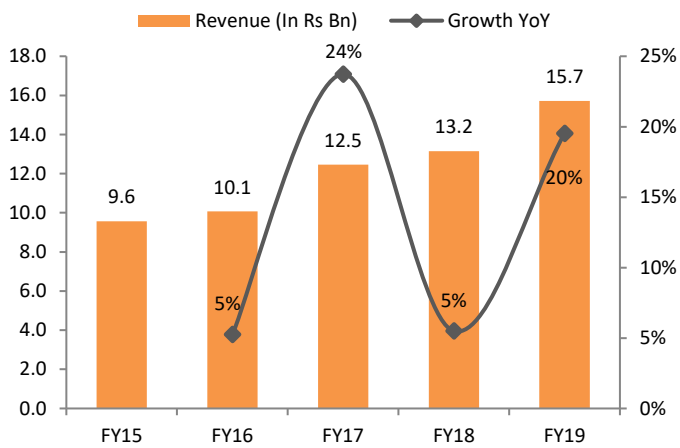
Source: Company Data, Equirus

Exhibit 10: Wide range of products across product segments

	Product Diversification				
	Fittings	UPVC	CPVC	PPR	HDPE
<b>PRINCE™</b>	✓	✓	✓	✓	✓
<b>Supreme Industries</b>	✓	✓	✓	✓	✓
<b>Finolex Industries</b>	✓	✓	✓	✗	✗
<b>Astral Polytechnik</b>	✓	✓	✓	✗	✓
<b>Jain Irrigation</b>	✓	✓	✓	✓	✓
<b>Ashirvad Pipes</b>	✓	✓	✓	✗	✗

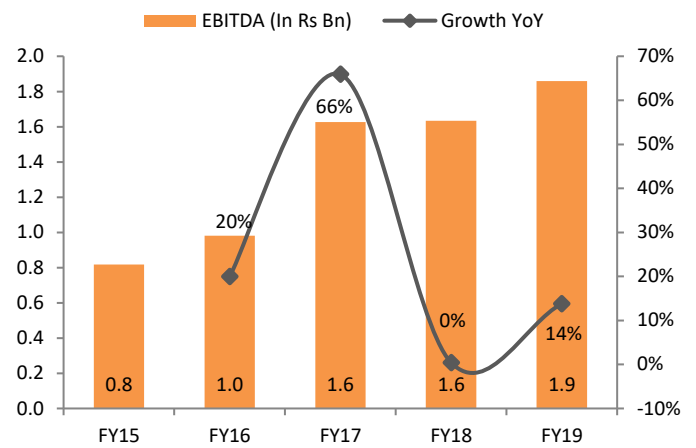
Source: Company Data, Equirus

**Exhibit 11: Revenue growing at 13% CAGR similar to volume growth**



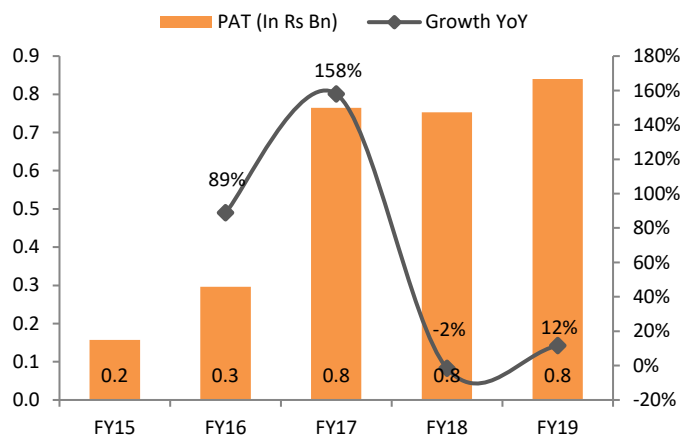
Source: Company Data, Equirus

**Exhibit 12: EBITDA growth in-line with volumes with stable EBITDAM**



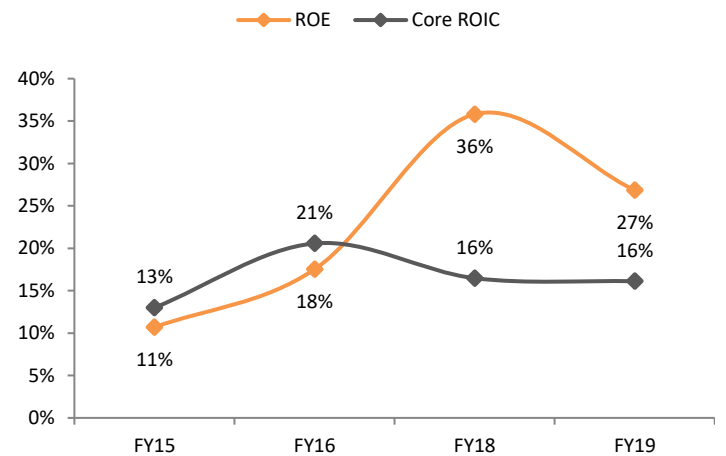
Source: Company Data, Equirus

**Exhibit 13: Decent PAT growth with ~5-6% PAT margin**



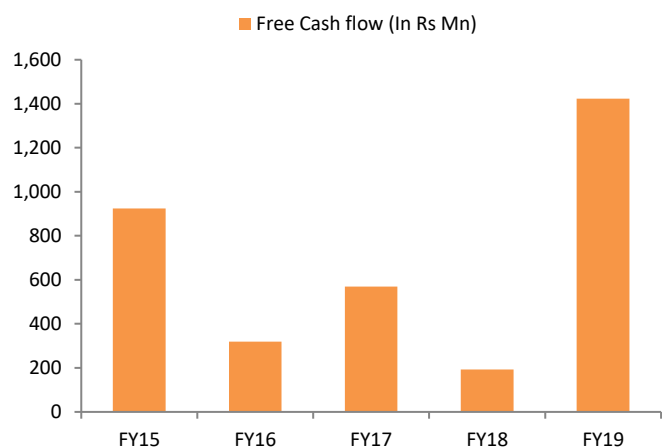
Source: Company Data, Equirus

**Exhibit 14: ROE to decline on dilution of equity and new investment in DWC; and Telangana plant will take time to ramp-up**



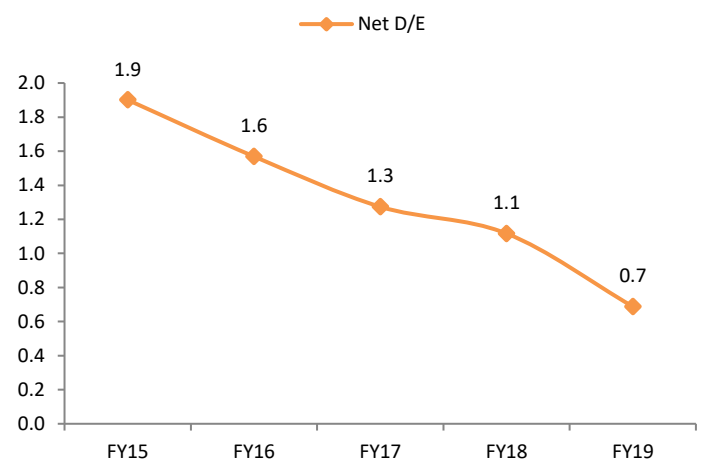
Source: Company Data, Equirus

**Exhibit 15: Prince Pipes Free Cashflow**



Source: Company Data, Equirus

**Exhibit 16: Net D/E – Prince will become net cash post IPO**



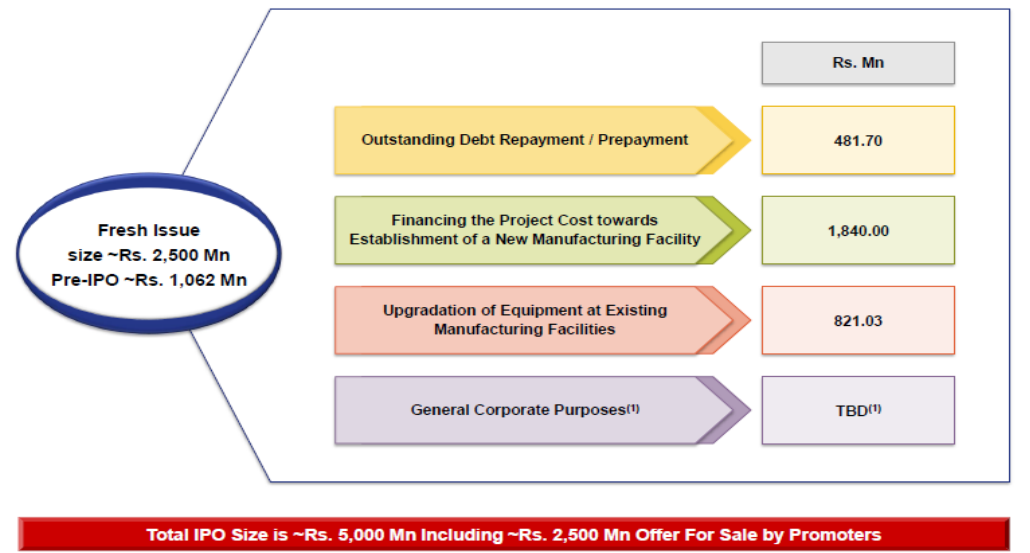
Source: Company Data, Equirus

Exhibit 17: Significant investment in DWC (~20% of capacity)

Plant	Start Date	Capacity in MT
Haridwar	Q4FY18	8,820
Chennai	Q2FY19	14,364
Dadra	Q3FY19	13,440
Aurangabad	Q1FY19	5,544

Source: Company Data, Equirus

Exhibit 18: Use of IPO Proceeds to fund new plant in Telangana and reduce promoter level debt



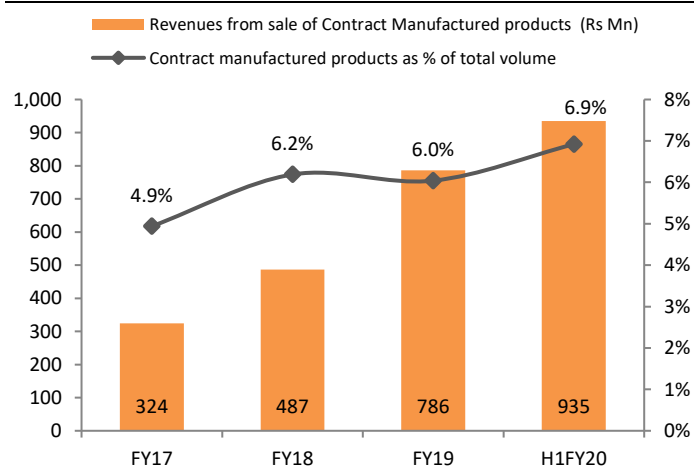
Source: Company Data, Equirus

Exhibit 19: Related Party Transactions

Company Name	Nature of business	FY19 Revenue	Comment
Ace Polyplast Pvt Ltd	Trading of Polymers like PVC, CPVC, PP	Rs 56mn	It was Rs 1.2bn in FY18 and large part of polymers were sold to Prince Pipe
Pinnacle Realty	Buying, leasing and selling of properties	Nil	FY18 has Rs 221 mn turnover and loss making.
Accord Infra Project	Buying, leasing and selling of properties	NIL	NIL

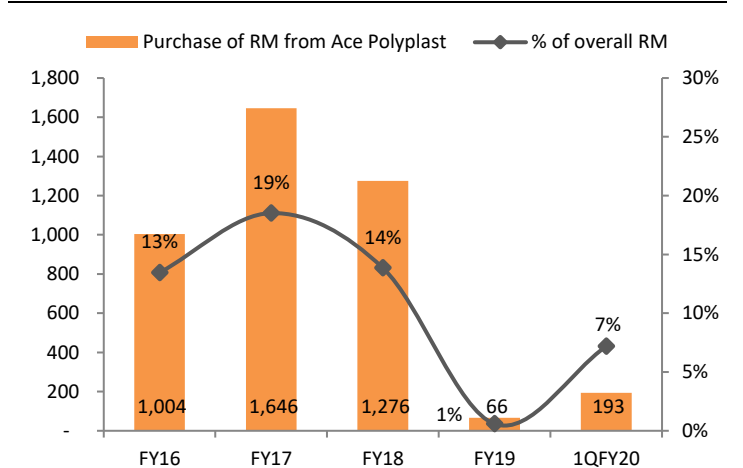
Source: Company Data, Equirus

Exhibit 20: Contract manufacturing is ~6-7% of total volumes whereas peers doesn't use contract manufacturing



Source: Company Data, Equirus

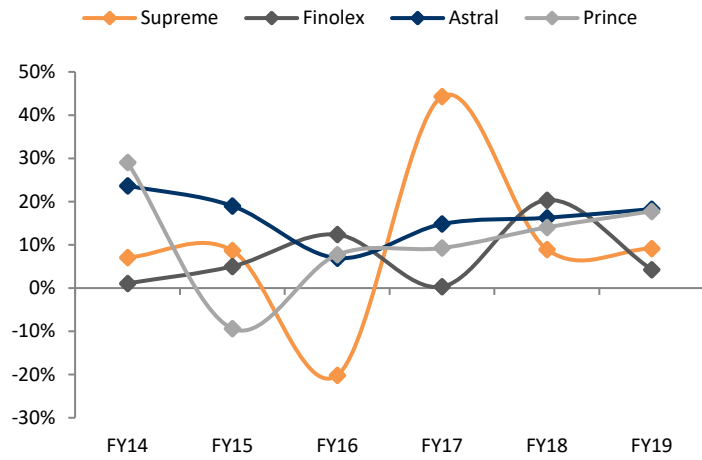
Exhibit 21: RM purchase from Ace Polyplast is ~14-15% of overall RM purchases



Source: Company Data, Equirus

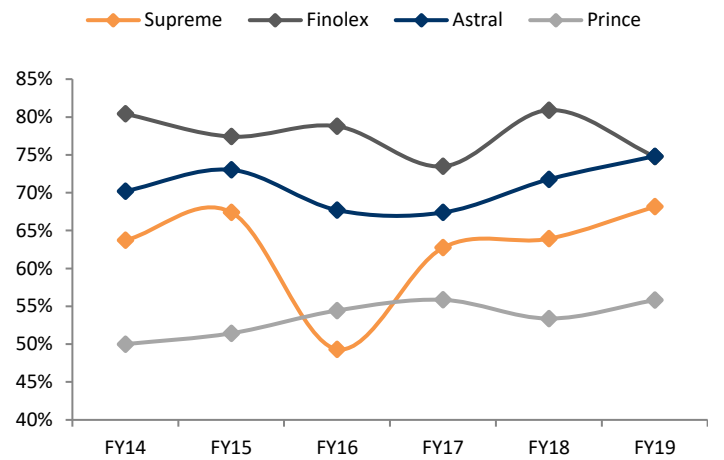
### Comparative Analysis

**Exhibit 22: Volume Growth is tad below Astral and less volatile**



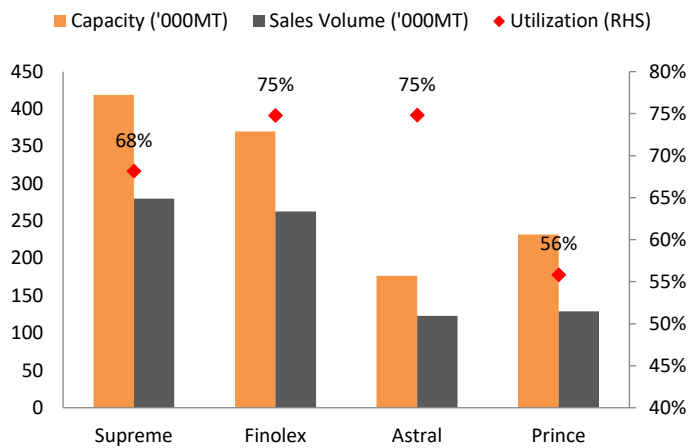
Source: Company Data, Equirus

**Exhibit 23: Significant lower utilization provide scope for higher utilization**



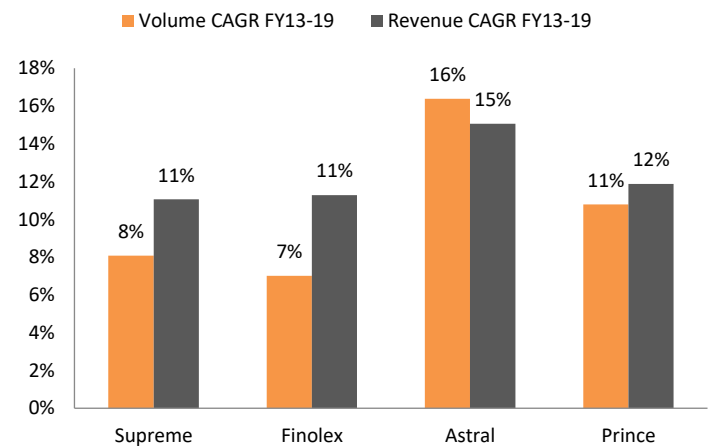
Source: Company Data, Equirus

**Exhibit 24: It's similar to Astral in volume**



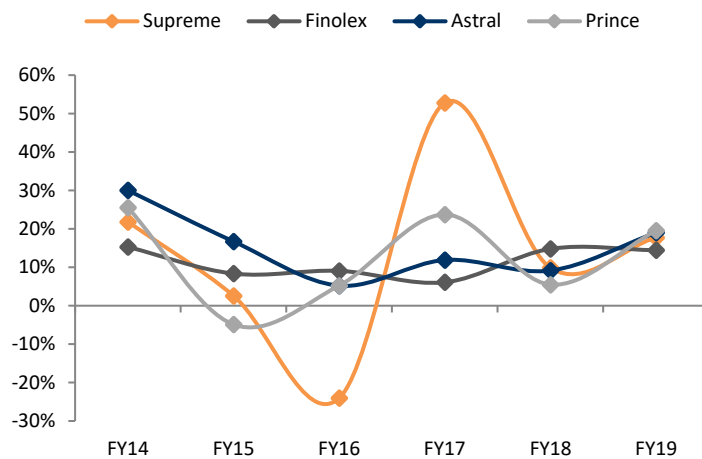
Source: Company Data, Equirus

**Exhibit 25: Growth has been better than Finolex/Supreme**



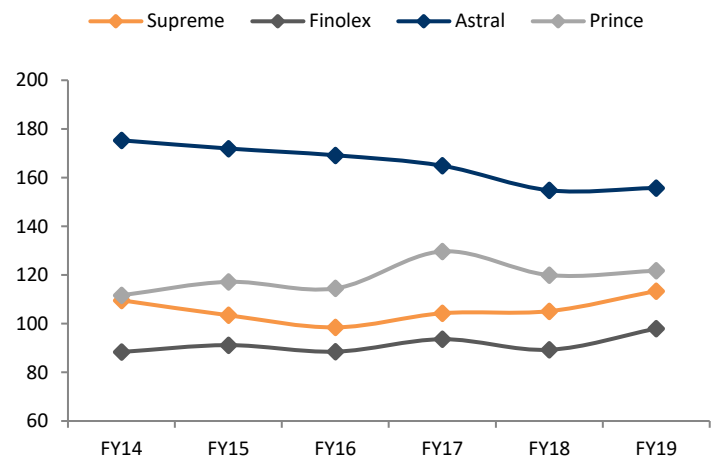
Source: Company Data, Equirus

**Exhibit 26: Revenue Growth is similar to volume growth**



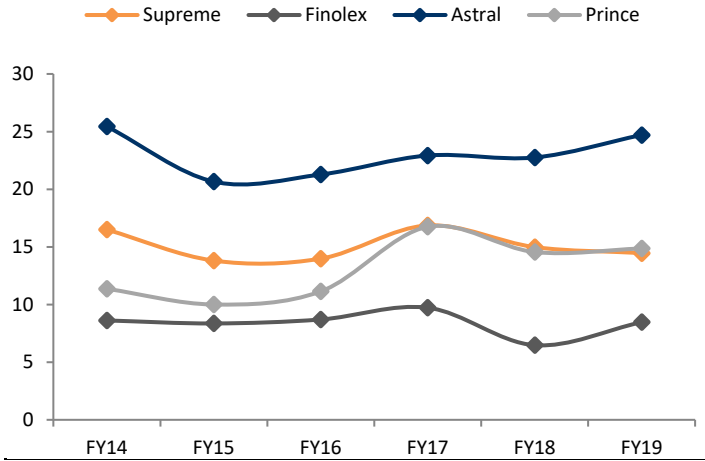
Source: Company Data, Equirus

**Exhibit 27: Supreme/Finolex has seen improvement in realization**



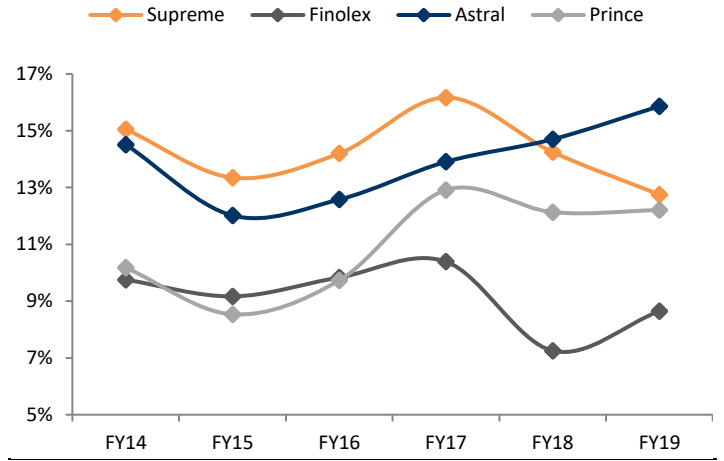
Source: Company Data, Equirus

Exhibit 28: EBITDA/kg has been steady



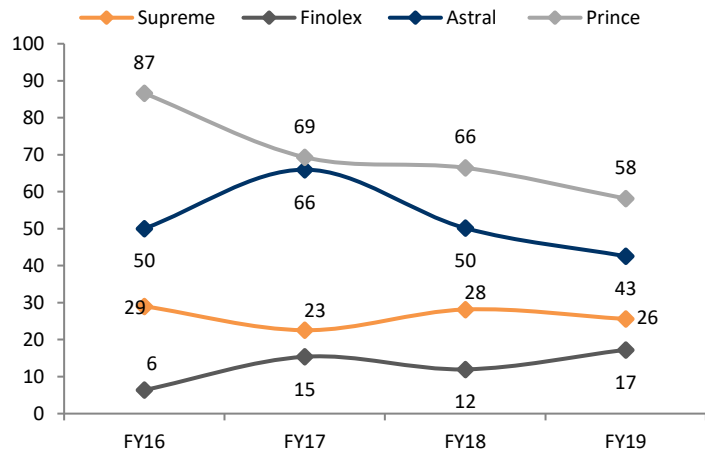
Source: Company Data, Equirus

Exhibit 29: EBITDA Margin has scope for improvement



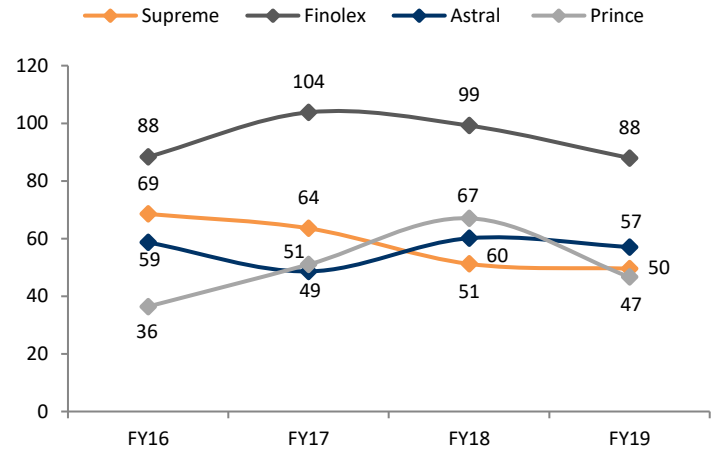
Source: Company Data, Equirus

Exhibit 30: Channel financing and tight credit control has led to lower receivable



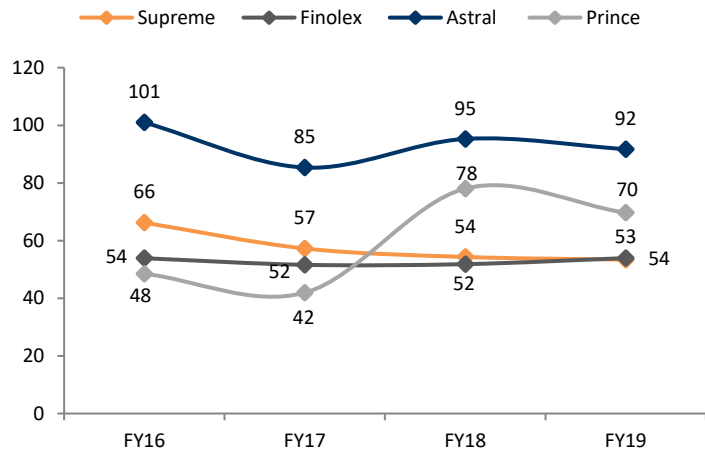
Source: Company Data, Equirus

Exhibit 31: Steady inventory days for Prince



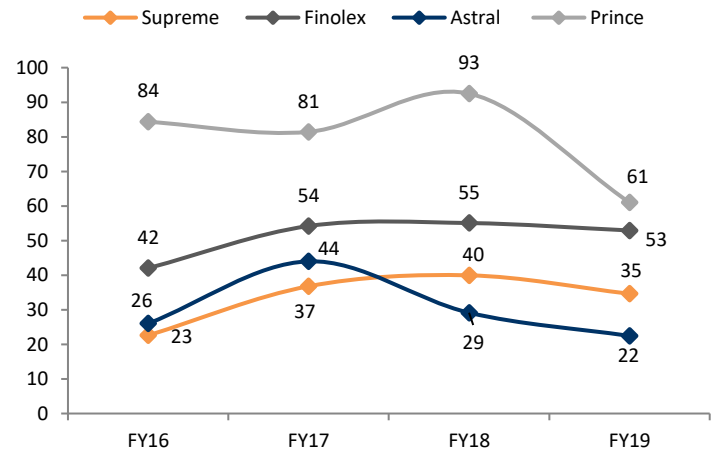
Source: Company Data, Equirus

Exhibit 32: Payable Days



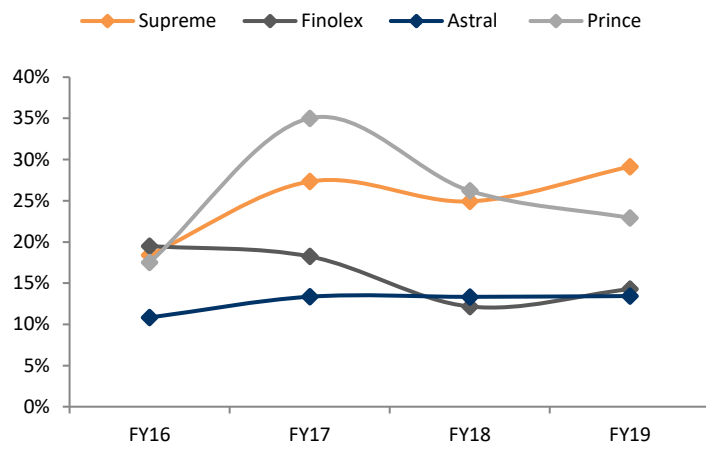
Source: Company Data, Equirus

Exhibit 33: Net working capital Days



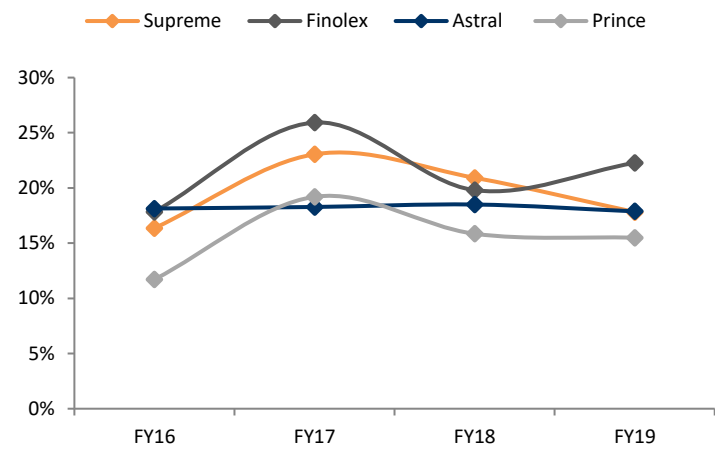
Source: Company Data, Equirus

Exhibit 34: Finolex RoE is lower due to investment;



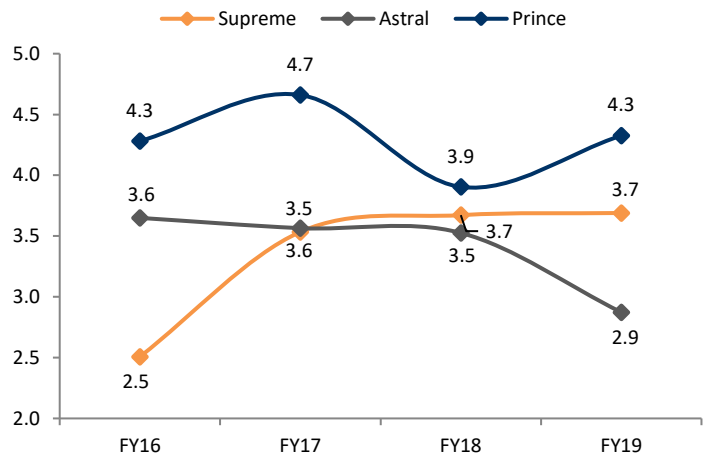
Source: Equirus, Company Data

Exhibit 35: Core ROIC is tad weaker than peers



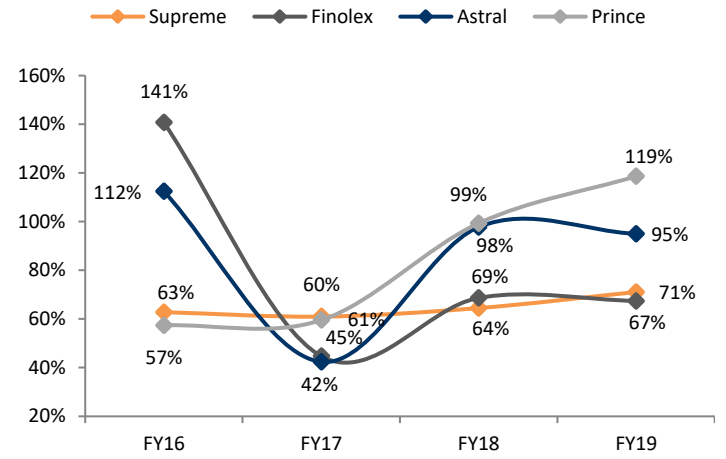
Source: Equirus, Company Data

Exhibit 36: Despite lower utilization, Net fixed assets Turnover is better on contract manufacturing and higher CPVC in revenue mix



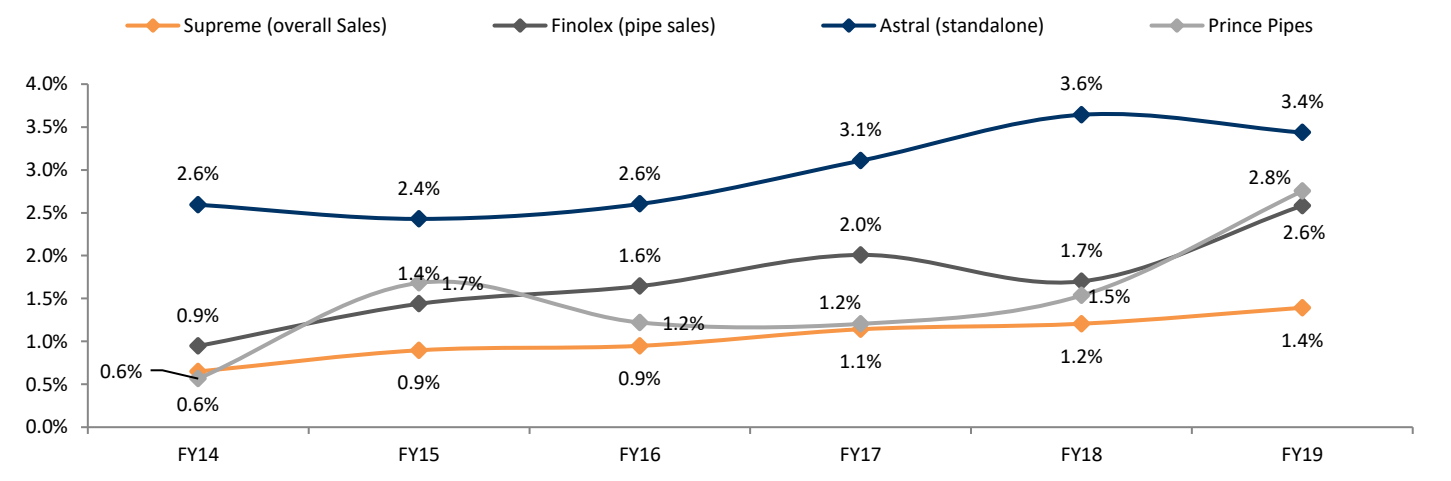
Source: Equirus, Company Data

Exhibit 37: OCF to EBITDA improved on better working capital



Source: Equirus, Company Data

Exhibit 38: A&P spends for Prince is improving in last few years and inching closer to Astral



Source: Company Data, Equirus



**Exhibit 39: Plant locations strategy is to have presence across pan-India**

	Supreme	Finolex Ind.	Astral	Prince
North	Malanpur (MP), Kanpur (UP)	-	Ghiloth (RJ), Sitarganj (UK)	Haridwar (Uttarakhand)
East	Kharagpur (WB)	-	Bhubneshwar (Orissa) to be ready in FY21	
West	Gadegaon (MH), Jalgaon (MH)	Vadodara (GJ), Pune (MH), Ratnagiri (MH)	Ahmedabad, Dholka (GJ), Sangali (MH)	Athal, Dadra, Rajasthan
South	Jadchelra (Telangana)	-	Hosur (TN)	Kolhapur (MH), Telangana (to come up in FY21E)

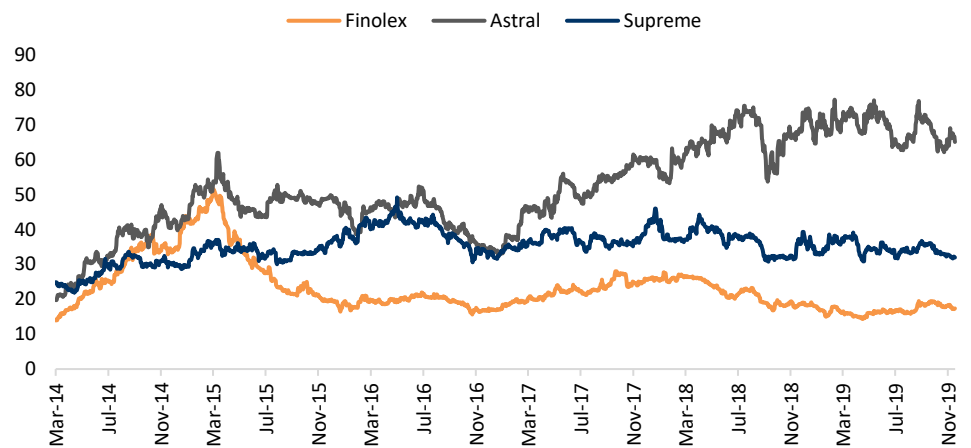
Source: Company Data, Equirus

**Exhibit 40: Mgmt remuneration including rent is tad higher than peers**

	FY19 (In Rs Mn)				
	Remuneration & commission	Rent	Total	as % of revenues	as % of PBT
Supreme	261	0	261	0.5%	4.4%
Finolex	105	0	105	0.3%	1.9%
Astral	58	0	58	0.2%	2.0%
Prince	41	18	60	0.4%	5.3%

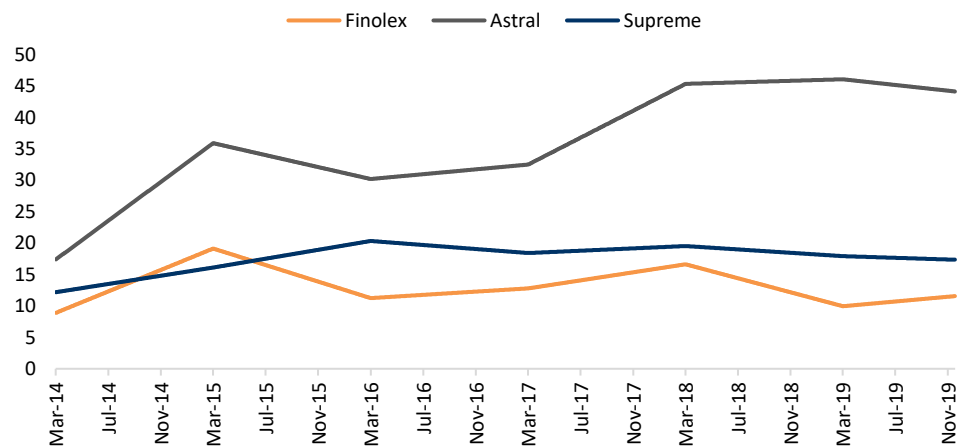
Source: Company Data, Equirus

**Exhibit 41: Price to Earnings Chart**



Source: Company Data, Equirus

**Exhibit 42: EV-EBITDA Chart – At 8x EV/EBITDA, Prince is 20%/50%/80% cheaper than Finolex/Supreme/Astral**



Source: Company Data, Equirus

## Valuation Tables

Exhibit 43: Prince valued at 20-80% lower than peers

	Mkt Cap (In Mn)	Net Debt				EBITDA				EV/EBITDA			
		FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Supreme	1,42,520	1,989	1,262	984	-792	7,865	7,838	8,377	9,650	18.4	18.3	17.1	14.7
Finolex	69,410	117	-1,646	-3,635	-4,385	4,929	6,043	5,351	6,546	14.1	11.2	12.3	9.9
Astral	1,71,890	793	953	-787	-2,753	3,168	3,849	4,872	5,626	54.5	44.9	35.1	30.1
Prince	17,084	3,550	2,746	NA	NA	1,633	1,859	NA	NA	12.6	10.7	NA	NA

Source: Company Data, Equirus

Exhibit 44: Strong return ratio at in-line industry P/E multiples

	Mkt Cap (In Mn)	PAT				ROE				P/E			
		FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Supreme	1,42,520	4,096	3,793	4,731	5,594	25%	29%	23%	24%	34.8	37.6	30.1	25.5
Finolex	69,410	3,075	3,777	4,048	4,659	12%	14%	16%	17%	22.6	18.4	17.1	14.9
Astral	1,71,890	1,751	1,958	2,921	3,354	19%	17%	21%	20%	98.2	87.8	58.8	51.3
Prince	17,084	753	840	NA	NA	27%	23%	NA	NA	22.7	20.3	NA	NA

Source: Company Data, Equirus

Exhibit 45: Core ROIC lower than peers; P/B inline

	Mkt Cap (In Mn)	Total Equity				Core ROIC				P/B			
		FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Supreme	1,42,520	17,331	19,927	21,872	24,903	21%	18%	20%	22%	8.2	7.2	6.5	5.7
Finolex	69,410	27,646	25,284	26,896	28,751	20%	22%	24%	28%	2.5	2.7	2.6	2.4
Astral	1,71,890	10,182	12,808	15,475	18,412	19%	19%	24%	23%	16.9	13.4	11.1	9.3
Prince	17,084	3,178	3,989	NA	NA	16%	16%	NA	NA	5.4	4.3	NA	NA

Source: Company Data, Equirus

## Key Financials

## Income Statement

Y/E Mar (Rs mn)	FY16A	FY17A	FY18A	FY19A
<b>Revenue</b>	<b>10,074</b>	<b>12,465</b>	<b>13,150</b>	<b>15,719</b>
COGS	7,462	8,891	9,214	11,274
Employee Cost	527	610	726	783
Other Expenses	1,104	1,338	1,577	1,803
<b>EBITDA</b>	<b>980</b>	<b>1,626</b>	<b>1,633</b>	<b>1,859</b>
Depreciation	285	317	369	436
<b>EBIT</b>	<b>695</b>	<b>1,310</b>	<b>1,264</b>	<b>1,423</b>
Interest Exp.	330	358	354	363
Other Income	6	25	60	71
<b>Profit before Tax</b>	<b>370</b>	<b>977</b>	<b>971</b>	<b>1,132</b>
Tax Expenses	74	212	218	292
<b>Recurring PAT</b>	<b>296</b>	<b>764</b>	<b>753</b>	<b>840</b>
Extraordinaires	0	0	0	0
<b>Reported PAT</b>	<b>296</b>	<b>764</b>	<b>753</b>	<b>840</b>
FDEPS	3.3	8.5	8.4	9.3
BVPS	20	27	35	44

YoY Growth (%)	FY17A	FY18A	FY19A
Sales	24%	5%	20%
EBITDA	66%	0%	14%
EBIT	88%	-3%	13%
PAT	158%	-2%	12%

## Key Ratios

Profitability (%)	FY16A	FY17A	FY18A	FY19A
Gross Margin	26%	29%	30%	28%
EBITDA Margin	10%	13%	12%	12%
PAT Margin	3%	6%	6%	5%
ROE	18%	36%	27%	23%
ROIC	12%	20%	16%	16%
Core ROIC	12%	19%	15%	15%

CAGR (%)	1 year	2 years	3 years
Revenue	20%	12%	16%
EBITDA	14%	7%	24%
PAT	12%	5%	42%

**Balance Sheet**

Y/E Mar (Rs mn)	FY16A	FY17A	FY18A	FY19A
Equity Capital	480	450	900	900
Reserves	1,361	1,980	2,278	3,089
<b>Net Worth</b>	<b>1,841</b>	<b>2,430</b>	<b>3,178</b>	<b>3,989</b>
Total Debt	2,974	3,220	3,646	2,969
Other long-term liabilities	108	117	127	149
Minority Interest	0	0	0	0
Account Payables	991	1,021	1,970	2,152
Other Current Liabilities	597	812	799	1,080
<b>Total Liabilities</b>	<b>6,512</b>	<b>7,600</b>	<b>9,720</b>	<b>10,339</b>
Gross Fixed Assets	4,014	4,652	4,033	4,707
Acc. Depreciation	1,661	1,977	665	1,074
Net Fixed Assets	2,353	2,675	3,368	3,634
Capital WIP	141	180	147	615
Long term investments	15	7	7	8
Others	0	0	0	0
Inventory	1,005	1,742	2,415	2,011
Receivables	2,390	2,367	2,394	2,504
Loans & Advances	521	505	1,293	1,345
Other current assets	0	0	0	0
Cash & Cash Equivalents.	86	124	96	223
<b>Total Assets</b>	<b>6,512</b>	<b>7,601</b>	<b>9,720</b>	<b>10,339</b>
Non-Cash WC	2,328	2,781	3,333	2,628
Cash Conv. Cycle	2,404	3,089	2,839	2,363
WC Turnover	4.3	4.5	3.9	6.0
Gross Asset Turnover	2.5	2.7	3.3	3.3
Net Asset Turnover	4.3	4.7	3.9	4.3
Net D/E	1.6	1.3	1.1	0.7

Days (x)	FY16A	FY17A	FY18A	FY19A
Receivable Days	87	69	66	58
Inventory Days	36	51	67	47
Payable Days	48	42	78	70
WC days	75	78	55	35

**Cash Flow**

Y/E Mar (Rs mn)	FY16A	FY17A	FY18A	FY19A
Profit Before Tax	370	959	952	1,115
Depreciation	285	329	381	452
Others	0	370	415	333
Tax paid	74	219	163	305
Change in WC	-19	-471	37	611
<b>Operating Cashflow</b>	<b>563</b>	<b>968</b>	<b>1,622</b>	<b>2,205</b>
Capex	-495	-693	-1,703	-1,051
Change in Invest.	-14	14	0	0
Others	0	0	0	0
<b>Investing Cashflow</b>	<b>-508</b>	<b>-679</b>	<b>-1,703</b>	<b>-1,051</b>
Change in Debt	-22	238	407	-707
Change in Equity	0	-148	0	0
Others	-8	-352	-352	-360
<b>Financing Cashflow</b>	<b>-29</b>	<b>-263</b>	<b>55</b>	<b>-1,068</b>
<b>Net Change in Cash</b>	<b>25</b>	<b>27</b>	<b>-26</b>	<b>86</b>

Source: Company, Equirus Research

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