

Prince Pipes & Fittings Ltd

Price Band: INR 177-178

ISSUE SUMMARY	
Issue Opens	18-Dec-19
Issue Closes	20-Dec-19
Offer Price (INR per share)	177-178
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	96.0
^Offer for Sale (No of sh. mn)	14.0
^Fresh Issue (No of sh. mn)	14.0
^Post Issue shares o/s (mn)	110.0
^*Issue Size (INR bn)	5.0
QIB	=>50%
Non-institutional	<15%
Retail	<35%
^ Issue Size (@INR178)	
POST ISSUE DETAILS	
M.Cap @INR37/sh. (INR bn)	19.6
Shareholding pattern	
Promoters	65.8%
Non-Promoters	34.2%

Prince Pipes and Fittings Ltd (PPFL), with >30 years' experience, is one of the leading polymer pipes and fittings manufacturers in India with 5% market share. It is an end-to-end polymer piping systems solution provider, operating under two strong brands - Prince Piping Systems and Trubore.

Diversified product portfolio: PPFL manufactures both polymer pipes (80% of volume) and fittings. It has a wide product-range (7167 SKUs), catering to both rural/urban markets - plumbing, irrigation and soil, waste & rain water (SWR) management. Segment-wise, agriculture (32% of Q1FY20 sales) and product-wise, UPVC (74% of Q1FY20 sales) have lower margin. Hence PPFL is focusing on improving product mix to expand its margins (13.9% as of Q1FY20). Focus will be more on Housing and Water Supply & Sanitation. It also plans to take its Trubore brand (premium brand in TN) pan-India over next 3-4 years.

Strategically located with strong distribution network: PPFL has six manufacturing facilities strategically located across India, which gave the company a strong presence in North, South and West. It has successfully established strong network of distributors, wholesalers and retailers (1,408 currently), which it plans to expand by entering new cities and consolidating its position where it already has a strong presence. It plans to expand its capacity at Rajasthan while set up a new facility in Telangana taking its total installed capacity from 0.24mn tonnes currently to 0.31mn tonnes by FY21.

Consistent financial performance: Over FY16-19, PPFL has recorded Revenue/ EBITDA/ PAT CAGR of 16.0%/ 23.8%/ 41.2% with EBITDA margins of ~12%. It has improved the working capital cycle (from 78 days in FY17 to 35 days in FY19) and reduced debt (D/E of 1.3x in FY17 to 0.7x in FY19). It enjoys healthy return ratios with ROE and RoCE of 20.5%/22.6% in FY19.

Issue Size: The INR5bn IPO consists of fresh issue of INR2.5bn and OFS (by promoters) of INR2.5bn which would result in promoters stake reducing from 90% pre-IPO to 65.8% post-IPO.

Valuation & View: The issue is priced at 23.5x FY19 EPS (fully diluted). While there are concerns on Promoter's pledge and related party transactions, valuations seems reasonable vis-à-vis peers, given its financials and return ratios. Hence, investors can Subscribe the IPO from a listing gains perspective.

Promoter's Pledge: Promoters have a pledge on ~35% of shares, followed by 16% shares as non-disposal undertaking for securing loans worth INR2bn under promoter entity - Express Infra Projects LLP (~Rs1.92bn outstanding currently). Both of these were released on condition to fully repay the amounts from the OFS proceeds within 2 days of the credit of proceeds.

Financials & Valuations (INR mn) :

Y/E March	FY16	FY17	FY18	FY19	1QFY20
Revenue	10,074	12,465	13,150	15,719	3,798
Growth (%)	NA	23.7	5.5	19.5	-3.4
Adj PAT	295	742	728	834	267
Growth (%)	NA	151.1	-1.9	14.5	28.0
EPS (INR)	2.7	6.7	6.6	7.6	9.7
RoE (%)	16.0	34.8	26.0	23.2	16.9
RoCE (%)	11.7	19.6	16.1	16.0	14.3
PE (x)	66.3	26.4	26.9	23.5	18.4

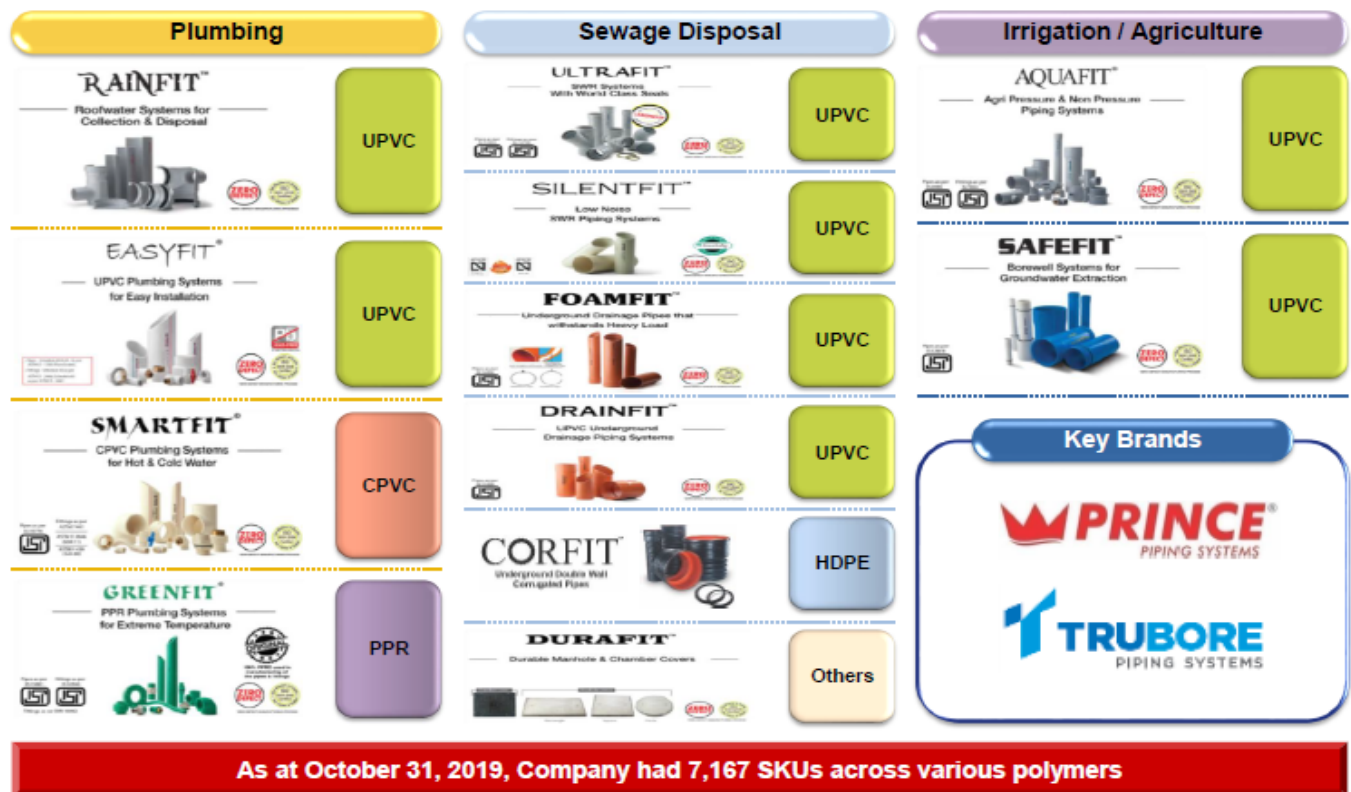
Source: Company RHP, MOFSL

Ratios are calculated on post issue and annualized basis, at the upper price band of INR178

About the Company

Prince Pipes and Fittings Ltd (PPFL), incorporated in 1987, is one of the leading polymer pipes and fittings manufacturers in India in terms of number of distributors. It is an end-to-end polymer piping systems solution provider with >30 years' experience, operating under two brands - Prince Piping Systems and Trubore (premium brand in South, acquired in Oct'12).

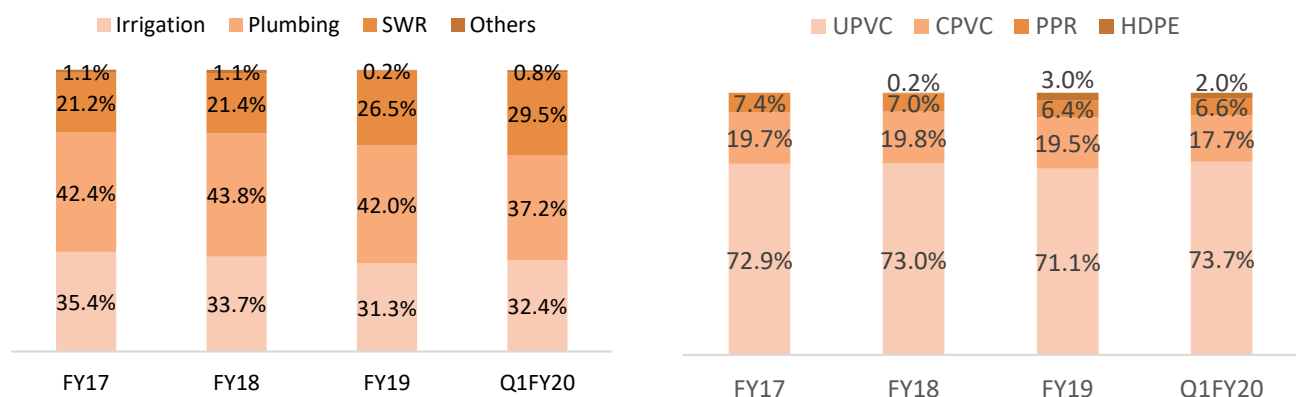
Exhibit 1: End-to-end Piping Systems Solution for Customers



Source: RHP, MOFSL

It currently manufacture polymer pipes using four different polymers viz. UPVC, CPVC, PPR and HDPE, and fittings using three different polymers: UPVC, CPVC and PPR. As of date, it has a product range of 7,167 SKUs, meets the requirements of both the rural and urban markets - plumbing, irrigation and soil, waste and rain water management.


Exhibit 2: Increasing focus on high margin Household segment (Plumbing & SWR)



Source: RHP, MOFSL

PPFL has six strategically located manufacturing plants, spread across North, West and South India with total installed capacity of 241,211 tonnes. The company also uses five contract manufacturers, of which two are in Aurangabad (Maharashtra), one each in Guntur (Andhra Pradesh), Balasore (Odisha) and Hajipur (Bihar). It plans to expand its capacity at its existing plant in Jobner from 6,221 tonnes p.a. to 17,021 tonnes p.a. by Dec'31, 2019 and to 20,909 tonnes p.a. by FY20-end. It also plans to set up a new plant in Sangareddy (Telangana) by FY21, with a total capacity of 51,943 tonnes p.a.

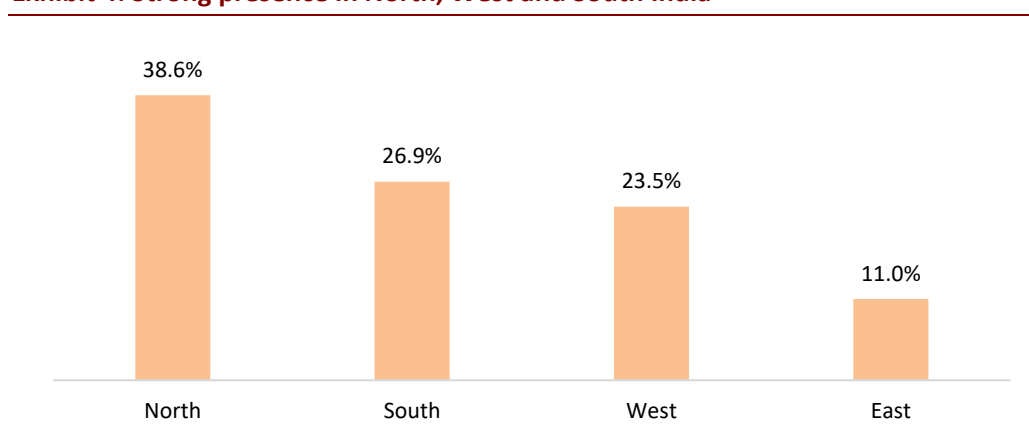
Exhibit 3: Manufacturing Plants well diversified geographically

							Proposed Plant
	Athal	Dadra	Haridwar	Chennai	Kolhapur	Rajasthan	Telangana Unit
Year of Establishment	1985	2000	2008	2012 ⁽²⁾	2012 ⁽²⁾	2019 ⁽³⁾	Fiscal 2021
Plant Land Area (m²)	19,905	71,569	67,630	35,402	14,300	68,796	99,390
Installed Capacity (approx.)⁽¹⁾ (As at October 31, 2019) (tonnes)	15,982	59,232	77,588	62,143	20,045	6,221	51,943
Products	Fittings	Pipes	Pipes, Fittings	Pipes	Pipes	Pipes	Pipes Fittings
Owned/Leased	Owned	Owned	Owned	Owned	Owned	Owned	Owned

Source: RHP, MOFSL

PPFL sells its Prince Piping Systems products to distributors (1151 distributors as at Oct'31, 2019), who then resell the products to wholesalers, retailers, and plumbers. On the other hand, it sells its Trubore products directly to wholesalers and retailers (257 wholesalers/retailers as at Oct'31, 2019). PPFL enjoys a market share of ~5% (FY19) and is among the top six organized players, which jointly have a total market share of 49%.

Exhibit 4: Strong presence in North, West and South India



Source: RHP, MOFSL

Peer Comparison

Exhibit 5: Key Matrix as on Mar'19

Company	M.Cap.* (INR Bn)	EBITDA Margin (%)	D/E (x)	ROE (%)	P/E (x)	EPS CAGR % (FY16-19)
Astral Poly	172	15.4	0.2	17.1	71.4	24.2
Supreme Industries	143	14.1	0.1	22.2	31.6	17.5
Finolex Industries	69	19.7	0.0	13.7	16.5	13.3
Prince pipes & fittings^	20	11.8	0.7	23.2	23.5	41.3

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 16th December, 2019

^Calculated on fully diluted basis at upper price band of INR178

Object of Issue:

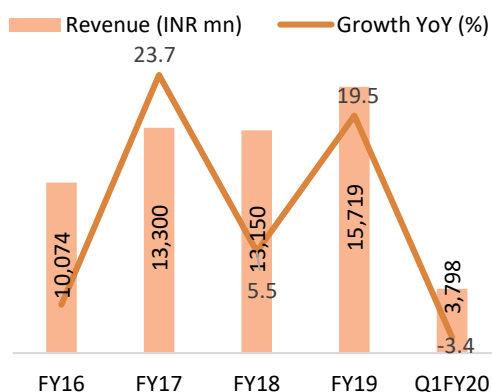
- The INR5bn IPO consists of fresh issue of INR2.5bn and OFS (by promoters) of INR2.5bn which would result in promoters stake reducing from 90% pre-IPO to 65.8% post-IPO.
- Proceeds from the OFS received by promoters will be used towards repayment of the outstanding bonds issued by Express Infra Projects LLP to KKR.
- Apart from the fresh issue of INR2.5bn, PPFL also undertook a pre-IPO placement of INR1.06bn @INR178/share to South Asia Growth Fund LLP.
- Thus the total funds raised from fresh issue and Pre-IPO placement stands at INR3.6bn which will be utilized for debt repayment (INR0.5bn), financing the project cost of new plant in Telangana (INR1.8bn), upgradation of equipment at its existing facilities (INR0.8bn) and balance on general corporate purposes.

Risk and concerns

- One of the promoter group entities, Express Infra Projects LLP, has issued bonds aggregating up to Rs2bn, of which ~Rs1.92bn was outstanding as at October 31, 2019. For securing these bonds, promoter had to pledge ~35% of equity shares, followed by 16% shares as non-disposal undertaking. While both of these were released on condition to fully repay the outstanding amounts from the proceeds of the OFS within 2 business days of the credit of proceeds, failure in doing so will again re-create the pledge and provide the non-disposal undertaking.
- Promoters have given personal guarantees of INR 6.1bn for a working capital and term loan of PPFL, and guarantee of INR55mn for forward booking of foreign exchange of PPFL. In case PPFL defaults on these debt obligations, the guarantees may be invoked, which may require promoters to sell some or all of their Equity Shares.
- A few litigations are going on against the promoters, which are likely to get closed soon. Any adverse outcome can impact the image and working of the company.
- PPFL has entered into certain related party transactions with its Promoters/Promoter Group/Group Entities/Key Managerial Personnel. For FY17, FY18 and FY19 and Q1FY20, such transactions accounted for 26.4%, 17.6%, 2.4% and 5.6% of its revenues.

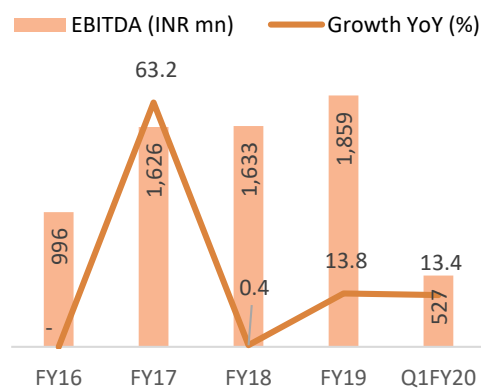
Story in Charts

Exhibit 6: Revenue and Revenue Growth YoY (%)



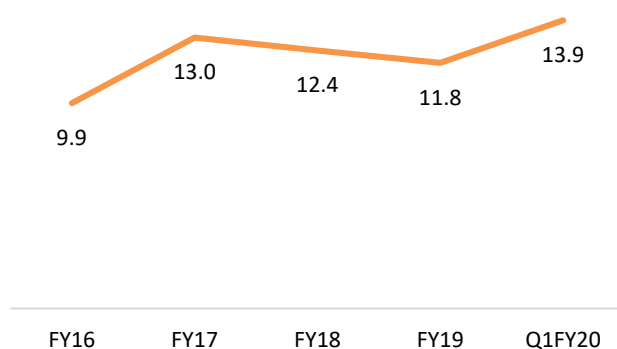
Source: RHP, MOFSL

Exhibit 7: EBITDA & EBITDA Growth YoY (%)



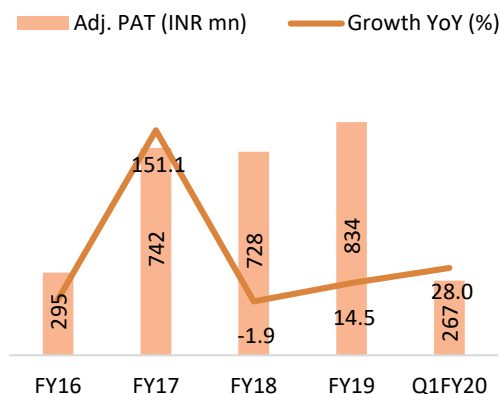
Source: RHP, MOFSL

Exhibit 8: Improving EBITDA Margin (%)



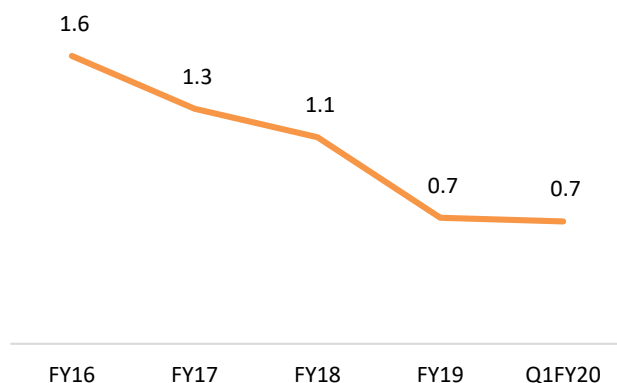
Source: RHP, MOFSL

Exhibit 9: PAT & PAT Growth YoY (%)



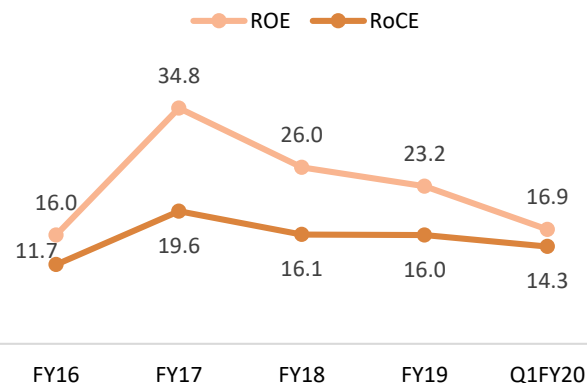
Source: RHP, MOFSL

Exhibit 10: Reducing D/E



Source: RHP, MOFSL

Exhibit 11: Healthy Return Ratios



Source: RHP, MOFSL

Financials

Income Statement

(INR mn)

Y/E March	FY16	FY17	FY18	FY19	1QFY20
Net Sales	10,074	12,465	13,150	15,719	3,798
Change (%)	NA	23.7	5.5	19.5	-
Total Expenditure	9,077	10,839	11,517	13,860	3,271
% of Sales	90.1	87.0	87.6	88.2	86.1
EBITDA	996	1,626	1,633	1,859	527
Margin (%)	9.9	13.0	12.4	11.8	13.9
Depreciation	297	328	381	452	118
EBIT	699	1,298	1,252	1,407	409
Int. and Finance Charges	335	364	361	364	74
Other Income	6	25	60	71	4
PBT	370	959	952	1,115	339
Tax	75	217	224	281	73
Tax Rate (%)	20.2	22.7	23.5	25.2	21.4
Min. Int. & Assoc. Share	0.0	0.0	0.0	0.0	0.0
Reported PAT	295	742	728	834	267
Adjusted PAT	295	742	728	834	267
Change (%)	NA	151.1	-1.9	14.5	-
Margin (%)	2.9	6.0	5.5	5.3	7.0

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY16	FY17	FY18	FY19	1QFY20
Share Capital	480	450	900	900	900
Reserves	1,362	1,975	2,266	3,108	3,378
Net Worth	1,842	2,425	3,166	4,008	4,279
Minority Interest	0	0	0	0	0
Debt	2,974	3,220	3,646	2,969	2,977
Deferred Tax (Net)	109	117	127	135	114
Total Capital Employed	4,925	5,763	6,939	7,112	7,370
Net Fixed Assets	2,314	2,637	3,324	3,595	3,601
Capital WIP	141	180	147	615	766
Intangibles	62	48	123	101	96
Investments	15	7	7	8	9
Current Assets	4,001	4,732	6,198	6,085	5,672
Inventory	1,005	1,742	2,415	2,011	2,187
Debtors	2,390	2,367	2,394	2,504	1,905
Cash and Bank Balance - Owned Funds	86	124	96	223	130
Loans and Advances & OCA	521	499	1,293	1,348	1,451
Curr. Liability & Provisions	1,608	1,842	2,860	3,292	2,775
Account Payables	991	1,021	1,970	2,152	1,704
Current Liabilities	404	597	581	841	774
Other Long Term Liab. & Provs.	213	224	309	299	297
Net Current Assets	2,393	2,890	3,339	2,793	2,897
Appl. of Funds	4,925	5,763	6,939	7,112	7,370

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY16	FY17	FY18	FY19	1QFY20
Basic (INR)					
EPS	2.7	6.7	6.6	7.6	9.7
Cash EPS	5.4	9.7	10.1	11.7	14.0
BV/Share	16.7	22.0	28.8	36.4	78.5
Valuation (x)#					
P/E	66.3	26.4	26.9	23.5	18.4
Cash P/E	33.1	18.3	17.7	15.2	12.7
P/BV	10.6	8.1	6.2	4.9	2.3
EV/Sales	2.2	1.8	1.8	1.4	1.4
EV/EBITDA	22.6	13.9	14.2	12.0	10.4
Return Ratios (%)					
RoE	16.0	34.8	26.0	23.2	16.9
RoCE	11.7	19.6	16.1	16.0	14.3
Working Capital Ratios					
Asset Turnover (x)	2.0	2.2	1.9	2.2	2.1
Inventory (Days)	36	51	67	47	53
Debtor (Days)	87	69	66	58	46
Creditor (Days)	36	30	55	50	41
Leverage Ratio (x)					
Net Debt/Equity	1.6	1.3	1.1	0.7	0.7

Source: Company RHP, MOFSL

*All ratios calculated on fully diluted and annualized basis

#Calculated on the upper price band of INR178

Cash Flow Statement

(INR mn)

Y/E March	FY16	FY17	FY18	FY19	1QFY20
OP/(Loss) before Tax	370	959	952	1,115	339
Depreciation	297	328	381	452	118
Interest paid	304	322	321	330	65
Direct Taxes Paid	-75	-219	-163	-305	-60
(Inc)/Dec in WC	-28	-471	37	611	-207
CF from Operations	867	919	1,528	2,202	255
Others	27	49	95	3	48
CF from Operating incl EO	894	968	1,622	2,205	303
(Pur)/Sale of FA	-497	-683	-1,037	-834	-228
Capital Advances paid	-21	-10	-667	-217	-90
(Pur)/Sale of Investments	-12	14	1	-	-1
Dividend Received	0	0	0	0	-
CF from Investments	-529	-679	-1,703	-1,051	-319
Proceeds from Borrowings	-21	254	425	-689	8
Proceeds on buyback of shares	-	-148	-	-	-
Bank Commission and Charges paid	-29	-37	-38	-31	-9
Interest Paid	-299	-315	-314	-329	-64
Net Lease impacts	-16	-17	-18	-18	-5
CF from Fin. Activity	-365	-263	55	-1,068	-70
Net Inc/Dec of Cash	0	27	-25	87	-86
Opening Balance	0	0	27	2	89
Closing Balance	0	27	2	89	3

Source: Company RHP, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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