

# Prince Plastics & Fittings

## Issue highlights

- Prince pipes is one of the leading plastic pipe manufacturing company with approx. 5% market share in Indian plastic piping industry (Rs 28,000 cr (approx.)); Plastic pipe manufacturing is among the few building material categories with a high share of unorganized players (approx. 35-40%). Amongst the organized players, top-5 players constitute approx. 50% of the organized market. Irrigation followed by plumbing are the largest applications for plastic pipes. Replacement demand drives approx. 35% of the market; the plastic piping industry has exhibited approx. 8% CAGR over FY13-19 despite a tepid growth in real estate sector as plastic pipes continue to gain share from metal (GI/steel) pipes. Going forward, the industry growth could be in low teens following the government push for affordable housing, 'Nal se Jal' and other infrastructure projects but the organized players could report faster than industry growth at the expense of the unorganized players.
- Prince pipe is one of the leading polymer pipes and fittings manufacturers in India using all 4 different polymers viz., UPVC, CPVC, PPR and HDPE. Its products are present in plumbing, irrigation and soil, waste & rain water (SWR) management with a diverse product range of 7,167 SKUs. With their comprehensive product range, they are positioned as an end-to-end polymer piping systems solution provider.
- The company markets their products under two brand names: Prince Piping Systems and Trubore; has largest network in terms of number of distributors (Source: CRISIL Research Report)
- As on Oct. 31, 2019, the company has total installed capacity of 241,211 tonnes per annum spread over six plants in West, North and Southern parts of the country; the plants are currently running at 65% utilization.
- Over last 3 years, the revenues for the company has grown at CAGR of 8.71% (revenue from operations for FY 17, 18 and 19 was reported at Rs1330.15 Cr, Rs 1320.5 Cr and Rs 1571.8 Cr, respectively), the profit for the year for FY 17, 18 and 19 was reported at Rs 74.18 Cr, Rs 72.7 Cr, Rs 83.35 Cr, respectively, representing a CAGR of 6.00%.

## Valuations

- The issue is priced at PE of ~19.2x for FY19 EPS of Rs 9.26 as compared with its listed peer viz., Finolex Industries (trading at P/E of 19.13x), Astral Poly (trading at P/E of 65.37x) and Supreme Ind. (trading at P/E of 32.17x). Investors may 'Subscribe' for long term investment horizon.

## Objects of the issue

Purpose	Amt (Rs cr)
Repayment/Prepayment of certain Loans	48.2
Establishment of new manufacturing facility at Telangana*	184.0
Up gradation of existing manufacturing facilities	82.1
General corporate purposes	[-]
<b>Total</b>	<b>[-]</b>

\*The company deployed Rs 12.10 cr, total cost of unit Rs 196.1 cr.

## Financial summary

Period	Sales	PBIDT	PAT	EPS	Growth	ROE	ROCE
FY2016	1081.1	100.2	29.5	3.18	-	17.4	14.8
FY2017	1330.0	165.1	74.2	7.85	146.9	30.7	24.8
FY2018	1320.5	169.4	72.8	8.08	2.9	26.4	20.8
FY2019	1571.9	193.0	83.4	9.26	14.6	20.5	22.6

Source: RHP

## Issue highlights

**Issue size:** Rs 500 Cr  
**Offer for sale:** Rs 250 Cr  
**Fresh Issue:** Rs 250 Cr  
**No. of shares:** 2.809 Cr – 2.825 Cr  
**Face value:** Rs 10

## Issue summary

**Price:** Rs 177 – Rs 178  
**Bid lot:** 84 shares  
**Issue opens:** Dec 18, 2019  
**Issue closes:** Dec 20, 2019  
**Tentative Listing:** Dec 31, 2019  
**Lead managers:** JM Financial, Edelweiss Financial  
**Registrar:** Link Intime India

## Shareholding (%)

	Pre-issue	Post-issue
Promoters	90.06	65.80
PUBLIC	9.94	34.2
Total	100	100

	Pre issue	Post issue #
Number of shares (In crore)	9.595	11.011/11.003

# Lower price Band/ Upper Price Band

## Issue break-up

Category	No. of shares (in cr) #	% of issue
QIB	1.412 - 1404	50
Non-institutional	0.424 - 0.421	15
Retail	0.989 - 0.983	30

# Lower price Band - Upper Price Band

## BUSINESS OVERVIEW

Prince pipes & fittings is one of the leading polymer pipes and fittings manufacturers in India in terms of number of distributors. The company is as an end-to-end polymer piping systems solution provider and markets its products under two brand names: Prince Piping Systems; and Trubore.

Currently the company manufactures polymer pipes using four different polymers: UPVC; CPVC; PPR; and HDPE, and fittings using three different polymers: UPVC; CPVC; and PPR. The products are used for varied applications in plumbing, irrigation, and soil, waste and rain water ("SWR") management catering to both rural & urban markets. As at October 31, 2019, Prince Pipes had a product range of 7,167 SKUs.

Prince pipes has 6 strategically located plants - Athal and Dadra in the Union Territory of Dadra and Nagar Haveli, Haridwar in Uttarakhand, Chennai in Tamil Nadu), Kolhapur in Maharashtra and Jobner in Rajasthan. It distributes the products from 11 warehouses which are managed by clearing and forwarding agents. The total installed capacity of its six existing plants is 241,211 tonnes per annum as at October 31, 2019.

Prince pipes d plan to expand the installed capacity at plant in Jobner (Rajasthan) from 6,221 tonnes per annum as at at October 31, 2019 to 17,021 tonnes per annum by December 31, 2019 and to 20,909 tonnes per annum by the end of Fiscal 2020. The company uses 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). The company plans to set up a new manufacturing plant in Sangareddy (Telangana), with a total estimated installed capacity of 51,943 tonnes per annum which is expected to be commissioned by FY2021.

The company sells products to distributors, who then resell the products to wholesalers, retailers, and plumbers. As at October 31, 2019, the company sold Prince Piping Systems products to 1,151 distributors in India. The Trubore brand products are directly sold to wholesalers and retailers. As at October 31, 2019, the company sold Trubore products to 257 wholesalers and retailers.

## STRENGTHS

### Experience management team

- **Jayant Shamji Chheda**, CMD and one of the Promoters, has **more than three decades' experience** in the pipes segment. He was awarded the Lifetime Achievement Award at the Vinyl India Conference in 2014 for his extensive contribution to the piping industry and the society.
- **Parag Jayant Chheda**, one of the executive Directors and one of the Promoters, has **more than two decades' experience** in the pipes and fittings segment. He was the recipient of the Inspiring Business Leader Award at the Economic Times Summit in the 'Business and Industry' category.
- **Vipul Jayant Chheda**, one of the executive Directors and one of the Promoters, has **more than two decades' experience** in the pipes and fittings segment.
- **Shyam Kishanchand Sharda**, CFO, is a Chartered Accountant and has approximately **two decades' experience** in accounting, finance, and taxation.

### Technical Collaboration

Since January 2015, Wavin Overseas B.V. ("Wavin"), a company headquartered in Zwolle in The Netherlands, has been providing Prince Pipes & Fittings with the technology and know-how in the manufacture of its products to improve the quality thereof and to improve manufacturing efficiency.

#### Wavin provides Prince Pipes & Fittings:

- Product know-how - products design and jointing techniques
- Production technology - formulations and quality requirements for raw materials
- Advice relating to management systems, such as quality control systems, costing systems and e-business.

As a result of technical collaboration with Wavin, Prince Pipes & Plastics has seen significant improvements in the production processes at Athal and Dadra plants. The average number of breakdowns per week (availability) at Athal plant decreased from 40 for Fiscal 2016 to 23 for the six months ended September 30, 2019 and the Athal plant's overall equipment efficiency increased from 86.5% for Fiscal 2016 to 91.2% for Fiscal 2019.

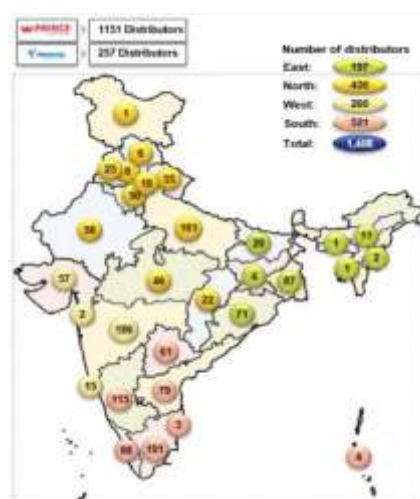
Wavin has a direct presence in over 25 countries with some 30 manufacturing sites, and is dedicated to supplying a range of plastic pipe systems for building and infrastructure projects, and licensing of know-how and intellectual property rights.

### Pan India distribution network: (Exhibit I)

As October 31, 2019, the company had 1,408 distributors and wholesalers and retailers buying directly, an 83.81% increase from March 31, 2017. Set forth below is a map showing the distribution network as at October 31, 2019. The Company has 197, 430, 260 and 521 distributors in East, North, West & South respectively

#### Diversified presence (Exhibit I)

#### Strategic presence of Mfg. Plants & Warehouses (Exhibit II)



Source: RHP

### Strategically located manufacturing facilities: (Exhibit II)

The 6 manufacturing plants & 5 contract manufacturing units are strategically located in close proximity to end consumer, thus (a) saving on transportation costs and (b) assisted in higher market penetration. The company has strong presence in North, West and South India. For Fiscal 2019, the sales in North, South, West and East India represented 38.57%, 26.93%, 23.54% and 10.96% of the revenue from operations, respectively.

### Comprehensive product portfolio across polymers serving diverse end-use applications

The companies 7,167 SKUs (as at October 31, 2019) are used for varied applications in the fields of plumbing, irrigation, and SWR management. Due to its comprehensive product portfolio, the company has been able to position itself not just as a pipe manufacturer but also as an end-to-end piping systems supplier.

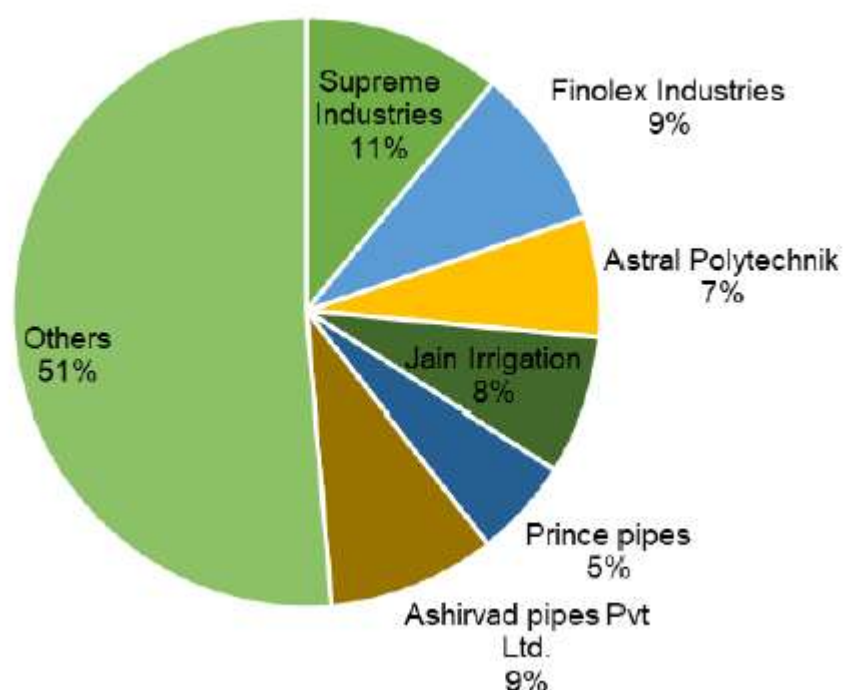
## Manufacturing Facilities (Peer Comparison)

Company	Manufacturing base	Number of distributors	Total no. of touch points
<i>Prince Plastics &amp; Fittings</i>	Maharashtra, Tamil Nadu, Uttarakhand, Dadra and Nagar Haveli, Rajasthan	1,408	46,171
<i>Supreme Industries</i>	Maharashtra, Madhya Pradesh, West Bengal, Uttar Pradesh	984	NA
<i>Finolex Industries</i>	Maharashtra, Gujarat	850	18,000
<i>Astral Polytechnik</i>	Gujarat, Tamil Nadu, Rajasthan, Maharashtra, Uttarakhand	750	28,000
<i>Jain Irrigation</i>	Maharashtra, Gujarat, Tamil Nadu, Rajasthan, Andhra Pradesh	NA	11,000
<i>Ashirvad Pipes</i>	Karnataka, Rajasthan	1,100	36,000

## Strong brand legacy in a fragmented market

The company is amongst the top six organized players, which collectively have a total market share of 49% in Fiscal 2019. The company has presence of more than three decades in the polymer pipes segment. Strong brand loyalty has enabled the company to consistently grow its brands; it acquired the Trubore brand in October 2012. Prince Pipes & Fitting has advantage of being one of the leading organized players in this highly fragmented market with a market share of ~5% in Fiscal 2019.

## Strategic presence of Manufacturing Plants and Warehouses



Source: RHP

Supreme Industries enjoys the largest market share of about 11%, as of Fiscal 2019, followed by Finolex Industries (9%), and Ashirvad Pipes (9%). The share of Prince Pipes and Fittings increased to 5% in Fiscal 2019 from 4.5% in Fiscal 2016.

## Intellectual Property

The company currently holds 46 trademarks registrations with respect to the brands TRUBORE, EASYFIT, SILENTFIT, FOAMFIT, PRINCE, SAFEFIT, RAINFIT, NOVOFIT, CORFIT, GREENFIT, AQUAFIT, ULTRAFIT, SMARTFIT, DRAINFIT and DURAFIT in India under various classes. This includes 10 trademarks (under various classes), including for the mark TRUBORE, that were assigned to us pursuant to a deed of assignment dated October 22, 2012 from Chemplast Sanmar Ltd. The company has registered the Prince Piping Systems logo as a trademark in Kenya and Bhutan and also applied for registration of the Prince Piping Systems logo as a trademark in Bangladesh, Nepal, Pakistan and Sri Lanka. A cautionary notice in relation to Prince Piping Systems' logo has been published for the trademark in the Maldives.

## STRATEGIES

**To optimize the product mix to improve margins:** The CPVC, PPR and HDPE products have higher margins than the UPVC products and the plumbing products have a higher margin than the other products. The fittings segment typically earns higher margins due to the specialized nature and precision required vis-à-vis the pipes segment. The company plans to actively manage product mix at each of the plants to ensure we are maximizing its profit margins.

**Increase sales of DWC pipes:** DWC pipes are pipes with full circular dual-wall cross-section, with an outer corrugated pipe wall and a smooth inner surface. DWC pipes are used in the irrigation sector, sewerage and drainage, city-gas distribution and in chemical and processing industries. HDPE pipes account for approximately 15% share in the total plastic pipes industry. These pipes have been gaining prominence over traditional metal and cement pipes, due to durability, low maintenance and longevity versus metal pipes. Government schemes, such as PMKSY, are expected by CRISIL Research to lend support to the segment. Consequently, CRISIL Research expects this segment to witness robust growth of 12-13% CAGR over the next five fiscal years (i.e., from April 1, 2019, to March 31, 2024).

**Expanding distribution network:** The Company plans to distribution network both in new areas as well as in areas where it has a strong presence.

**Set up a new manufacturing plant in Telangana:** The opening of the Telangana plant will enable up the company to compete in South India markets more effectively, which are currently catered to from plants in Athal and Haridwar.

**Expand the Trubore brand to new geographies:** Trubore brand products are currently sold primarily in Tamil Nadu; the company plans to expand Trubore brand in all other states in South India and then gradually expand in North, East and West India in next 3-4 years.

## RISK FACTORS

- Reduced demand for plumbing products
- Agreement with technical collaborator “Wavin” expires on January 1, 2020, unless renewed further
- Change in government stance with regard to building of new houses and related infrastructure
- Tepid growth of agriculture segment
- Competition from peers



## INDUSTRY OVERVIEW

Being a cost-effective way to transport water, pipes form an integral part of infrastructure to transport, distribute and dispose life sustaining resource. They are used for a variety of end applications such as irrigation, household plumbing, sewerage and industrial applications. In the past, metal pipes - especially galvanized iron (GI) pipes - were used for most purposes. However, with an increase in availability of raw materials, superior properties and low costs compared with GI, plastic pipes have emerged as the material of choice for these applications.

### Domestic demand outlook

The Indian plastic pipes and fittings industry rose at a healthy 10-12% CAGR between Fiscals 2014 and 2019 to about Rs 290-300 billion. Industry growth was driven by rising demand from the construction and irrigation sectors. The sub-segments propelling offtake in the construction space were increasing investments in WSS projects, substitution of metal pipes with polymer pipes, and replacement demand. Initiatives such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Accelerated Irrigation Benefits Programme (AIBP), and Command Area Development and Water Management Programme supported the irrigation sector's growth.

#### *The factors that are expected to contribute to demand growth are:*

**Low per-capita consumption of plastic:** India has very low per-capita plastic consumption of about 11 kg, compared with the global average of 30 kg.

**Substitution and replacement demand:** Plastic pipes have several advantages over metal pipes. A factor driving long-term demand is the replacement of older pipes with plastic pipes.

**Healthy growth in government investments towards WSS:** WSS and plumbing are the second largest end-user segment for plastic pipes, accounting for 35-40% share of the plastic pipes market. CRISIL Research expects overall WSS investments to be Rs 2,924 billion over the next five years, i.e., from April 1, 2019, to March 31, 2024, compared to Rs 1,753 billion over the past five Fiscal years i.e., from April 1, 2014, to March 31, 2019. This will also be driven by the recently proposed "Nal se Jal" scheme.

**Real Estate Sector:** 'Housing for all by 2022' the scheme - now in its fifth year of implementation- is witnessing faster completion velocity in the recent months.



## COMPARATIVE PRODUCT ANALYSIS

Product	PVC pipes	CPVC pipes	HDPE pipes	PPR pipes
Prince Pipes and Fittings	Y	Y	Y	Y
Ashirvad Pipes	Y	Y	N	N
Astral Polytechnik	Y	Y	Y	N
Finolex Industries	Y	Y	N	N
Jain Irrigation	Y	Y	Y	Y
Supreme Industries	Y	Y	Y	Y

Source: RHP

## COMPANY FINANCIALS

### Income statement

(Rs Cr)

Particulars	FY2016	FY2017	FY2018	FY2019	June 30,2019
<b>Revenue from Operations</b>	<b>1,081.1</b>	<b>1,330.0</b>	<b>1,320.5</b>	<b>1,571.9</b>	<b>379.8</b>
Other Income	0.6	2.5	6.0	7.1	0.4
<b>Total Revenue</b>	<b>1,081.6</b>	<b>1,332.5</b>	<b>1,326.6</b>	<b>1,579.0</b>	<b>380.2</b>
<b>Expenses:</b>					
Cost of Materials Consumed	704.7	836.5	893.8	1,072.9	279.0
Purchase of Stock-in-Trade	32.7	107.5	46.2	34.1	6.3
Changes in Inventories	8.7	(55.0)	(18.6)	20.4	(16.4)
Excise duty	73.7	83.5	5.5	-	-
Employee Benefit Expense	52.7	61.0	72.6	78.3	19.8
Other Expenses	108.9	133.8	157.7	180.3	38.4
<b>Total Expenses</b>	<b>981.4</b>	<b>1,167.4</b>	<b>1,157.2</b>	<b>1,386.0</b>	<b>327.1</b>
<b>PBIDT</b>	<b>100.2</b>	<b>165.1</b>	<b>169.4</b>	<b>193.0</b>	<b>53.1</b>
Depreciation and Amortization Expenses	29.7	32.8	38.1	45.2	11.8
Finance Cost	33.5	36.4	36.1	36.4	7.4
<b>Profit before exceptional items and tax</b>	<b>37.0</b>	<b>95.9</b>	<b>95.2</b>	<b>111.5</b>	<b>33.9</b>
<b>Exceptional Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit before tax</b>	<b>37.0</b>	<b>95.9</b>	<b>95.2</b>	<b>111.5</b>	<b>33.9</b>
Tax	7.5	21.7	22.4	28.1	7.3
PAT	29.5	74.2	72.8	83.4	26.7
<b>Other Comprehensive Income</b>	<b>(0.2)</b>	<b>(1.0)</b>	<b>0.6</b>	<b>(0.1)</b>	<b>0.2</b>
<b>Total Comprehensive Income for the year</b>	<b>29.3</b>	<b>73.1</b>	<b>73.3</b>	<b>83.2</b>	<b>26.9</b>
EPS (Rs)	3.2	7.9	8.1	9.3	3.0

Source: RHP

**Balance sheet**

(Rs Cr)

Period	FY2016	FY2017	FY2018	FY2019	June 30,2019
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	231.4	263.7	332.4	359.5	360.1
Capital Work in Progress	14.1	18.0	14.7	61.5	76.6
Right-Of-Use Assets	2.2	1.1	7.8	6.2	5.8
Goodwill	0.3	0.3	0.3	0.3	0.3
Other Intangible Assets	3.6	3.5	4.2	3.6	3.5
Financial Assets	8.5	7.3	77.3	75.1	79.8
<b>Total Non-Current Assets</b>	<b>260.1</b>	<b>293.9</b>	<b>436.6</b>	<b>506.2</b>	<b>526.1</b>
<b>Current Assets</b>					
Inventories	100.5	174.2	241.5	201.1	218.7
Financial Assets	-	-	-	-	-
Investments	1.0	-	-	-	-
Trade Receivables	239.0	236.7	239.4	250.4	190.5
Cash & Bank Balances	8.6	12.4	9.6	22.3	13.0
Other Current Assets	44.1	43.3	45.6	60.5	66.2
Assets classified as held for sale	-	-	7.1	-	-
<b>Total Current Assets</b>	<b>393.2</b>	<b>466.6</b>	<b>543.2</b>	<b>534.2</b>	<b>488.3</b>
<b>Total Assets</b>	<b>653.3</b>	<b>760.5</b>	<b>979.9</b>	<b>1,040.4</b>	<b>1,014.5</b>
<b>EQUITY &amp; LIABILITIES</b>					
Equity Share Capital	48.0	45.0	90.0	90.0	90.0
Other Equity	136.2	197.5	226.6	310.8	337.8
<b>Total Equity</b>	<b>184.2</b>	<b>242.5</b>	<b>316.6</b>	<b>400.8</b>	<b>427.9</b>
<b>Liabilities</b>					
<b>Non Current Liabilities</b>					
Long Term Borrowings	89.5	105.8	146.2	105.8	98.2
Other Financial Liabilities	14.9	15.5	22.3	20.4	20.1
Provisions	4.3	4.5	6.9	7.8	8.5
Others	10.9	11.7	13.3	13.5	11.4
<b>Total Non Current Liabilities</b>	<b>119.6</b>	<b>137.5</b>	<b>188.6</b>	<b>147.6</b>	<b>138.2</b>
<b>Current Liabilities</b>					
Short Term Borrowings	185.9	188.8	169.8	145.7	160.9
Trade Payables	99.1	102.1	197.0	215.2	170.4
Other Financial Liabilities	56.9	75.3	98.1	113.1	105.0
Provisions	2.1	2.4	1.2	1.6	1.1
Other Liabilities	5.6	11.9	8.5	16.5	11.0
<b>Total Current Liabilities</b>	<b>349.6</b>	<b>380.5</b>	<b>474.7</b>	<b>492.1</b>	<b>448.4</b>
<b>Total Equity and Liabilities</b>	<b>653.3</b>	<b>760.5</b>	<b>979.9</b>	<b>1,040.4</b>	<b>1,014.5</b>

Source: RHP

## Peer Financials

Company	Prince Pipes & Fittings Ltd	Supreme Inds*	Finolex Inds*	Astral Poly *	Jain Irrigation *	Ashirvad Pipes Pvt
Year	FY19	FY19	FY19	FY19	FY19	FY19
Operating Income (Rs Cr)	1,571.9	5,608.1	3,086.8	1,917.5	4,488.5	2,672.8
Share of plastic pipes	100.0%	56.5%	83.4%	100.0%	48.6%	100.0%
OPM	12.2%	14.4%	19.5%	16.1%	16.3%	18.8%
RoCE	22.6%	32.7%	20.0%	20.5%	9.7%	33.8%
ROE	20.5%	25.0%	13.2%	13.8%	5.06%	23.7%
NPM	5.2%	8.2%	11.3%	7.4%	5.2%	10.7%
Sales growth	19.0%	11.8%	13.3%	18.9%	15.6%	25.7%
NP growth	11.7%	12.5%	17.1%	18.8%	19.3%	101.6%

Source: RHP \* Financials are on a standalone basis. For Jain Irrigation, segmental revenue as reported under the segment 'plastic division', and not only pipes

## Comparison with Listed Peers

Name of the company	Face Value	Total Income (Rs in Cr)	EPS (Basic)	NAV	P/E	RoNW (%)
Prince Pipes & Fittings Limited (Restated)	10	1,579.00	9.26	43.71	[ - ]	21.18%
<b>Peer Group*</b>						
Astral Poly Technik Ltd	1	2,522.73	16.27	106.64	65.37	15.45%
Finolex Industries Ltd	10	3,131.73	29.59	207.60	19.13	14.26%
Supreme Industries Ltd	2	5,619.77	35.32	169.57	32.17	20.83%
<b>Industry Composite</b>				<b>161.27</b>	<b>38.89</b>	<b>16.84%</b>

Source: RHP, Peer Group Companies' financial details set out in the above table are based on their respective consolidated audited results as at and for the year ended March 31, 2019. P/E Ratio has been computed using the closing market prices of the peer companies on BSE sourced from BSE's website as on November 21, 2019, as divided by the basic and diluted EPS respectively.

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