

# PRINCE PIPES AND FITTINGS LIMITED

IPO Note

**(SUBSCRIBE)**

**Analyst:**

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# IPO details

Key Data	
Issue Opens	18-Dec-19
Issue Closes	20-Dec-19
Equity Shares Offered (in mn.)	208.33
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	177-178
Max. Issue Size (Rs mn)	5,000.00
Lot Size (Eq. Shares)	84 and multiple thereof

Valuation	@ 177 per share	@ 178 per share
Market Cap (Rs. mn)	19,489	19,599
Net Debt (Rs. mn)	2,291	2,291
Enterprise Value (Rs. mn)	21,780	21,890
EV/ Sales	1.4	1.4
EV/ EBIDTA	11.7	11.8
P/E	19.1	19.2

	Pre Issue		Post Issue <sup>^</sup>	
	# no. of Shares	% Holding	# no. of Shares	% Holding
Promoters	86.4	90.1%	72.3	65.7%
Public	9.5	9.9%	9.5	8.7%
Offer for sale		0.0%	14.1	12.8%
Fresh Issue		0.0%	14.1	12.8%
Total	96.0	100.00%	110.1	100.0%

## Object of the issue

- Repayment or prepayment of certain outstanding loans of the company.
- Financing the project cost towards establishment of a new manufacturing facility.
- Upgradation of equipment at the manufacturing facilities

## Recommendation

The issue is priced at a P/E of 19.2x of FY19 earnings given its financials and return ratios, which is significantly lower than its peers it represents an opportunity for the listing gains. Therefore, we give **SUBSCRIBE** rating to this IPO.

Source: Red Herring Prospectus, Dealmoney Research

## One of the Leading Polymer Pipes and Fittings manufacturers

- ❑ Prince Pipes and Fittings Ltd. (PPF) is recognized as one of the leading polymer pipes and fittings manufacturers in India in terms of number of distributors (Source: CRISIL Research Report). It market its products under two brand names: Prince Piping Systems; and Tubore. Due to its comprehensive product range, it is positioned as an end-to-end polymer piping systems solution provider. It has more than 30 years' experience in the polymer pipes segment.
- ❑ PPF currently manufactures polymer pipes using four different polymers: UPVC; CPVC; PPR; and HDPE, 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. Its product range meets the requirements of both the rural and urban markets.
- ❑ It has six strategically located manufacturing plants, which gives it a strong presence in North, West and South India. Its plants are located at the following locations Athal (Union Territory of Dadra and Nagar Haveli); Dadra (Union Territory of Dadra and Nagar Haveli); Haridwar (Uttarakhand); Chennai (Tamil Nadu); Kolhapur (Maharashtra) and Jobner (Rajasthan).
- ❑ The total installed capacity of six existing plants is 241,211 tonnes per annum as at October 31, 2019. It plans to expand the installed capacity at its 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. It 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).
- ❑ PPF plans to set up a new manufacturing plant in Sangareddy (Telangana), with a total estimated installed capacity of 51,943 tonnes per annum. It plans to commence production at the Telangana plant in Fiscal 2021.
- ❑ Its revenue from operations for Fiscals 2017, 2018 and 2019 was ₹ 13,300.15 million, ₹ 13,205.45 million and ₹ 15,718.69 million, respectively, representing a CAGR of 8.71%. Its revenue from operations for the three-month period ended June 30, 2019 was ₹ 3,797.66 million. Its PBT for Fiscals 2017, 2018 and 2019 was ₹ 959.08 million, ₹ 951.67 million and ₹ 1,114.68 million, respectively, representing a CAGR of 7.81%. PAT for the three-month period ended June 30, 2019 was ₹ 339.31 million. Its profit for the year for Fiscals 2017, 2018 and 2019 was ₹ 741.82 million, ₹ 727.66 million, ₹ 833.51 million, respectively, representing a CAGR of 6.00%. Its profit for the period for the three-month period ended June 30, 2019 was ₹ 266.69 million.

Source: Red Herring Prospectus, Dealmoney research

# Strengths

- ❑ PPF has a strong legacy of more than three decades in the polymer pipes segment. It markets its products under two brand names: Prince Piping Systems and Trubore. It believes that consumers have a strong loyalty to both its brands, which has enabled it to consistently grow its brands. It acquired the Trubore brand in October 2012.
- ❑ Owing to its comprehensive product portfolio, it is positioned not just as a pipe manufacturer but also as an end-to-end piping systems supplier. It currently manufactures polymer pipes using four different polymers: UPVC; CPVC; PPR; and HDPE, and fittings using three different polymers: UPVC; CPVC; and PPR.
- ❑ Strategically located manufacturing facilities with a core focus on quality: Due to the size of pipes, an important factor in their cost is transportation costs. Therefore, it is a competitive advantage to manufacture pipes as close as possible to the ultimate consumers. Its multi-location facilities have assisted in market penetration and developing a strong presence in North, West and South India.
- ❑ Large and growing distribution network: PPF has a pan-India network of distributors for its Prince Piping Systems products and a network of wholesalers and retailers for its Trubore brand products in South India. As at March 31, 2017, 2018 and 2019 and October 31, 2019, it had 766, 955, 1,253 and 1,408 distributors and wholesalers and retailers buying directly from PPF, respectively, which represented an 83.81% increase from March 31, 2017 to October 31, 2019.
- ❑ Technical collaboration with a reputed international player for almost the last five years, which has helped it to improve the quality of its products and its manufacturing efficiency: Since January 2015, Wavin Overseas B.V. (“Wavin”), a company headquartered in Zwolle in The Netherlands, has been providing it with the technology and know-how in the manufacture of its products to improve the quality thereof and to improve manufacturing efficiency.

## Future road ahead

- ❑ **Continue to optimize our product mix to improve margins:** Continue to actively manage its product mix at each of its plants to ensure it is maximizing its profit margins. Its CPVC, PPR and HDPE products have higher margins than its UPVC products and its plumbing products have a higher margin than its other products. Its fittings have higher margins than its pipes and it endeavor to optimize its mix of pipes and fittings to maximize its margins.
- ❑ **Increase in sales of DWC pipes:** 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.
- ❑ **Increase sales of its Prince Piping Systems products by reaching out to more retailers and expanding its distribution network both in new areas as well as in areas where it has already a strong presence:** It plan to increase sales of its Prince Piping Systems products by increasing the number of retailers who stock its products. It plan to expand the sale of its Prince Piping Systems products into cities where its products are not currently sold as well as consolidating its position in areas where it already has a strong presence.
- ❑ **Set up a new manufacturing plant in Telangana and expand capacity at our plant in Rajasthan:** It plans to set up a new manufacturing plant in Sangareddy (Telangana), with a total estimated installed capacity of 51,943 tonnes per annum. It plans to commence production at the Telangana plant in Fiscal 2021. The opening of this new plant will improve its efficiency thus making it more competitive.
- ❑ **Expand the Trubore brand to new geographies:** It acquired the Trubore brand in October 2012 and it is now its premium brand. Trubore brand products are currently sold in South India, primarily in Tamil Nadu. It plan to increase sales of its Trubore brand products by increasing its marketing efforts and the number of wholesalers and retailers for its Trubore brand products. It plans expand the presence of its Trubore brand initially in all other states in South India and then gradually expand in North, East and West India, thereby making Trubore brand a pan-India brand in the next three or four years.

Source: Red Herring Prospectus, Dealmoney research

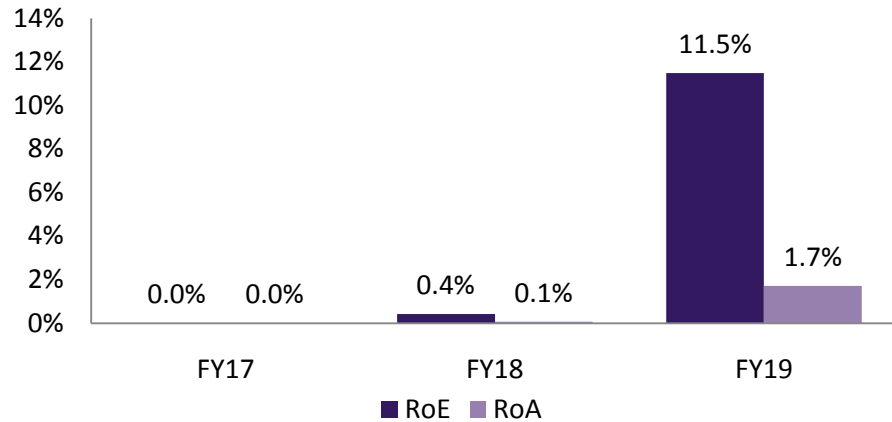
# Peers

Name of the company	Revenue	PAT	EV/EBITDA	EPS	PE	RoNW	NAV per share
Prince Pipes and Fittings Limited <sup>3</sup>	15,790	840	12	9.3	19.2	21.2%	43.7
<b>Peer Group</b>							
Astral Poly Technik Limited	25,227	1,958	45	16.3	65.4	15.5%	106.6
Finolex Industries Limited	31,317	3,777	11	29.6	19.1	14.3%	207.6
Supreme Industries Limited	56,198	3,793	18	35.3	32.2	20.8%	169.6

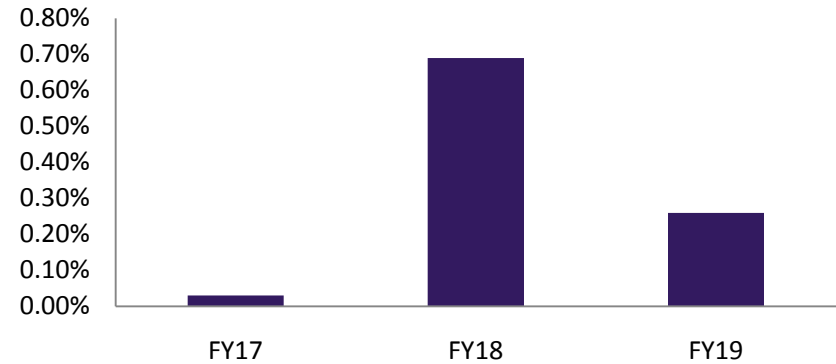
Source: Red Herring Prospectus, Dealmoney Research,

# Financial Performance

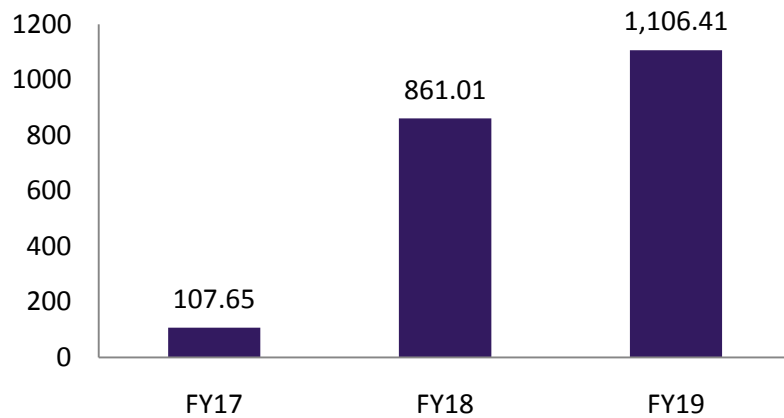
### Return Ratios (%)



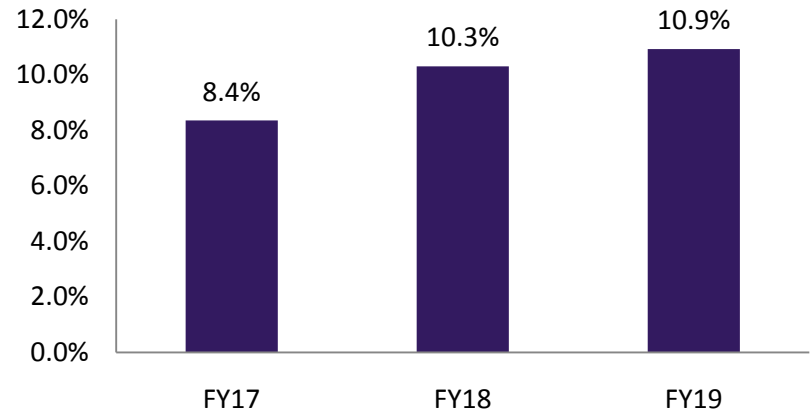
### Net NPAs/Net advances



### Net Interest Income



### NIM



Source: Red Herring Prospectus, Dealmoney Research,

# Standalone Summary Financials

## Income Statement

Rs. mn	FY16	FY17	FY18	FY19
Total Income	10,089.9	12,465.0	13,150.4	15,718.7
Operating Expense	9,055.7	10,838.7	11,517.0	13,859.6
<b>EBIDTA</b>	<b>1,034.2</b>	<b>1,626.3</b>	<b>1,633.4</b>	<b>1,859.1</b>
Depreciation	285.3	328.3	380.9	451.6
Other Income	11.3	24.8	60.3	71.3
Finance Costs	353.3	363.7	361.1	364.0
<b>PBT</b>	<b>406.9</b>	<b>959.1</b>	<b>951.7</b>	<b>1,114.7</b>
Exceptional items	-	-	-	-
<b>Profit before tax</b>	<b>406.9</b>	<b>959.1</b>	<b>951.7</b>	<b>1,114.7</b>
Provision for Tax	95.8	217.3	224.0	281.2
<b>Profit for the year</b>	<b>311.1</b>	<b>741.8</b>	<b>727.7</b>	<b>834</b>

Rs. mn	FY16	FY17	FY18	FY19
EBIDTA Margin	10.4%	13.2%	12.9%	12.3%
Net Margin	3.1%	5.9%	5.5%	5.3%
ROE	17.68	34.18	26.06	23.32
ROCE	16.02	25.11	21.08	21.45

## Balance Sheet

` mn	FY16	FY17	FY18	FY19
<b>Liabilities</b>				
Share capital	480	450	900	900
Share Warrants & O/S	-	-	7	17
Reserves and surplus	1,435	1,975	2,258	3,091
Long-Term Borrowings	895	1,058	1,462	1,058
Deferred tax liabilities(Net)	115	117	127	135
Other Long Term Liabilities	140	155	228	204
Long term provisions	43	45	69	78
Other financial liabilities	-	-	-	-
Trade payables	991	1,021	1,970	2,152
Other current liabilities	503	872	1,039	1,296
Short term borrowings	1,859	1,888	1,698	1,457
Short Term Provisions	31	24	39	16
<b>Total Liabilities</b>	<b>6,492</b>	<b>7,605</b>	<b>9,799</b>	<b>10,404</b>
<b>Assets</b>				
Net Block	2,353	2,685	3,447	3,696
Capital Work in Progress	141	180	147	615
Investments	3	7	7	8
Loans & Advances	78	61	740	651
Deferred tax asset (net)	-	-	-	-
Other non-current assets	-	5	25	92
Currents Investments	10	-	-	-
Inventories	1,005	1,742	2,415	2,011
Trade receivables	2,390	2,367	2,394	2,504
Cash and cash equivalents	86	124	96	223
Loans & Advances	122	394	371	453
Other current assets	304	39	156	151
<b>Total Assets</b>	<b>6,492</b>	<b>7,605</b>	<b>9,799</b>	<b>10,404</b>

Source: Red Herring Prospectus, Dealmoney Research,



# Key Risks

- ❑ Reduction in residential and non-residential construction activity in India will have adverse effect on the company.
- ❑ Government plans to reduced construction
- ❑ Decline in agriculture growth
- ❑ Threat from competitors
- ❑ Threat from substitutes

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

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