

## Prince Pipes & Fittings Limited

Incorporated in 1987, Mumbai based Prince Pipes and Fittings Limited (PPFL) is engaged in manufacturing of polymer pipes and fittings. Company's products are used for varied applications in plumbing, irrigation, and soil, waste & rain water ("SWR") management. The company produces four types of polymer pipes i.e. CPVC, UPVC, HDPE, PPR and fitting.

**Capacity expansion to drive growth:** Company has an installed capacity of 2,41,211 MT per annum. It plans to set up a new manufacturing plant in Sangareddy (Telangana), with a total estimated installed capacity of 51,943 MT (~21.5%) per annum and plans to commence production in FY2021.

**Strong brand and wide distribution network:** PPFL is committed to spend 2-3% of net revenue for ad expenses in order to expand its footprints for brands like 'Prince Pipes' & 'Trubore'. PPFL plans to enhance the presence of Trubore brand, thereby making it a pan-India brand over the next 3-4 years. As on October 31, 2019, company had a distribution network of 1,408 distributors with 46,171 touch points, which is highest among peers.

**Favorable product mix to improve margins:** Product mix of UPVC/CPVC/PPR/HDPE in FY2019 was 71%/19.5%/6.4%/3%. CPVC, PPR and HDPE products have higher margins vs, UPVC products. Over the years, PPFL has improved the product mix of high margin products (CPVC,PPR,HDPE) from 23.5% in FY2016 to 28.9% in FY2019. Going forward, company intends to increase the contribution of higher margin products in top-line, which will ultimately boost the bottom-line.

**Outlook & Valuation:** In terms of valuations, the pre-issue P/E works out to 16.0x 1QFY2020 annualized earnings (at the upper end of the issue price band), which is lower compared to PPFL's peers like Finolex Ind. and Supreme Ind. (trading at 23.3x and 40.9x of its 1QFY20 annualized earnings, respectively). Further, PPFL has highest ROE of 20.8% among peers. Hence, considering the above positive factors, we recommend **SUBSCRIBE** on the issue with a long-term horizon.

### Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019	FY2020 Q1
<b>Net Sales</b>	<b>1,330</b>	<b>1,321</b>	<b>1,572</b>	<b>380</b>
% chg	23.0	(0.7)	19.0	-
<b>Net Profit</b>	<b>74</b>	<b>74</b>	<b>83</b>	<b>27</b>
% chg	150.4	0.4	12.4	-
OPM (%)	12.1	12.2	11.8	13.9
<b>EPS (Rs)</b>	<b>7.8</b>	<b>7.8</b>	<b>8.8</b>	<b>2.8</b>
P/E (x)	22.9	22.8	20.3	-
P/BV (x)	7.0	5.3	4.2	-
RoE (%)	30.4	23.4	20.8	-
RoCE (%)	35.5	25.7	26.7	-
EV/Sales (x)	1.4	1.4	1.1	-
EV/EBITDA (x)	11.2	11.4	9.7	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: Dec 18, 2019

Issue Close: Dec 20, 2019

### Issue Details

Face Value: Rs.10

Present Eq. Paid up Capital: Rs96cr

Offer for Sale: Rs250cr

Fresh issue: Rs 250 cr

Post Eq. Paid up Capital: Rs110cr

Issue size (amount): Rs500cr

Price Band: Rs177-178

Lot Size: 84 shares and in multiple thereafter

Post-issue implied mkt. cap: \* Rs1947cr - \*\*Rs1958cr

Promoters holding Pre-Issue: 90.0%

Promoters holding Post-Issue: 65.8%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	65.8
Others	34.2

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## Company background

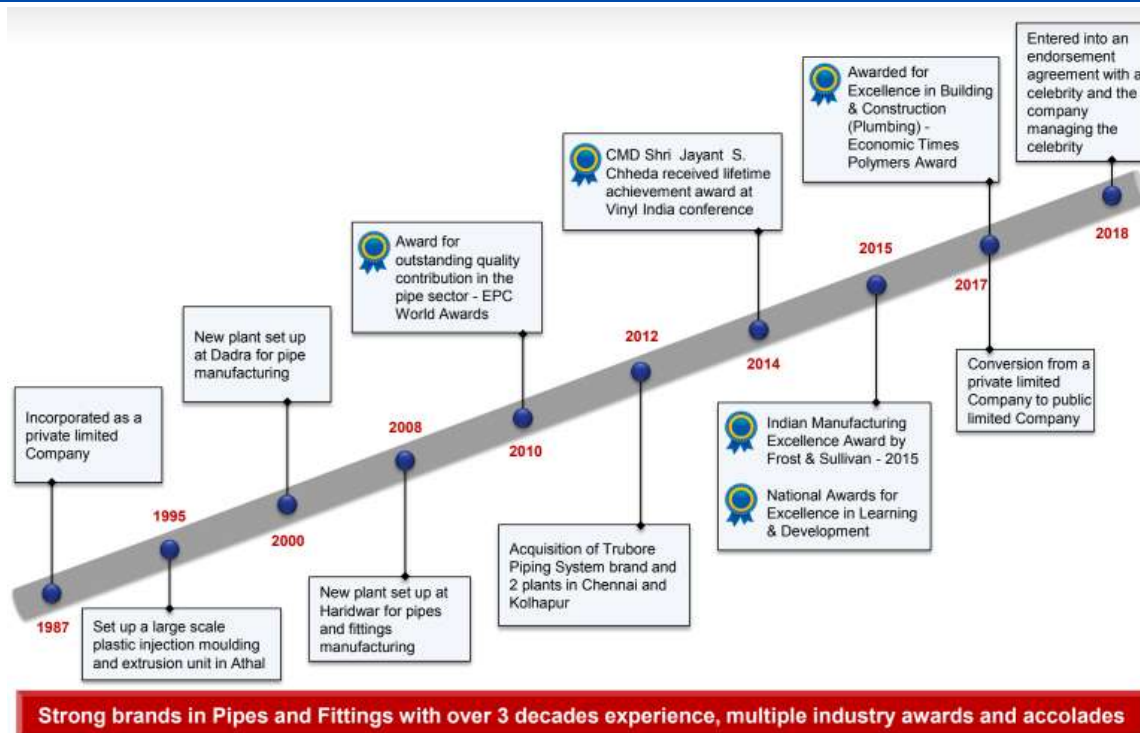
Incorporated in 1987, Mumbai based Prince Pipes and Fittings Limited is engaged in manufacturing of polymer pipes and fittings. Company's products are used for varied applications in plumbing, irrigation, and soil, waste and rain water ("SWR") management. Company's Product range meets the requirements of both the rural and urban markets.

The company produces four types of polymer pipes including CPVC, UPVC, HDPE, PPR and three different polymer fitting types CPVC, PPR, and UPVC. It is operating in the polymer pipe segment under two brand names i.e. Trubore and Prince Piping Systems. The company has a corporate office in Mumbai and a strong presence across North, South and West India.

Prince Pipes provides end-to-end solutions across a wide product range (7,167 SKUs as on October 31, 2019). It has 5 manufacturing units located at Haridwar (Uttarakhand), Athal (Dadra and Nagar Haveli), Dadra (Dadra and Nagar Haveli), Kolhapur (Maharashtra) and Chennai (Tamil Nadu). Besides, two contract manufacturing units are located at Hajipur (Bihar) and Aurangabad (Maharashtra).

The company is also planning to open two manufacturing units at Jobner (Rajasthan) and Sangareddy (Telangana). Prince Pipes and Fittings Ltd has 10 warehouses to store the products. The company sells the products under 'Prince Piping Systems' brand name to 1,151 distributors (as on October 31, 2019), who further sell them to wholesalers, retailers and plumbers. The products under Trubore are directly sold to 257 wholesalers and retailers.

**Exhibit 1: Journey of the company**



Source: Company, Angel Research

## Issue details

PPFL is raising ~₹500cr out of which ~₹250cr is from Offer for sale & ~₹250cr with fresh issue of equity shares in the price band of ₹177-178.

### Exhibit 2: Pre and post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	8,64,42,816	90.0%	7,23,97,872	65.8%
Others	95,38,000	10.0%	3,76,27,888	34.2%
	9,59,80,816	100.0%	11,00,25,760	100.0%

Source: RHP, Note: Calculated on upper price band

## Objectives of the Offer

- 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.
- General corporate purposes, subject to the applicable laws.

## Outlook & Valuation

In terms of valuations, the pre-issue P/E works out to 16.0x 1QFY2020 annualized earnings (at the upper end of the issue price band), which is lower compared to PPFL's peers like Finolex Ind. and Supreme Ind. (trading at 23.3x and 40.9x of its 1QFY20 annualized earnings, respectively). Further, PPFL has highest ROE of 20.8% among peers. Hence, considering the above positive factors, we recommend **SUBSCRIBE** on the issue with a long-term horizon.

### Key Risks

- Demand slowdown in piping and fitting industry can likely have adverse impact on business.
- Increase in competition from other players will impact the business of PPFL.
- There are outstanding litigations against the company and certain Promoters & Directors, and any adverse outcome in any of these litigations could have an adverse effect on the business, operations and financial condition.

**Income Statement**

Y/E March (₹ cr)	FY2017	FY2018	FY2019	1QFY20
<b>Net Sales</b>	<b>1,330</b>	<b>1,321</b>	<b>1,572</b>	<b>380</b>
% chg	23.0	(0.7)	19.0	-
<b>Total Expenditure</b>	<b>1,169</b>	<b>1,159</b>	<b>1,386</b>	<b>327</b>
Raw Material	973	927	1,127	269
Personnel	61	73	78	20
Others Expenses	136	159	180	38
<b>EBITDA</b>	<b>161</b>	<b>162</b>	<b>186</b>	<b>53</b>
% chg	64.2	0.4	15.1	-
(% of Net Sales)	12.1	12.2	11.8	13.9
Depreciation & Amortisation	32	37	45	12
<b>EBIT</b>	<b>129</b>	<b>125</b>	<b>141</b>	<b>41</b>
% chg	86.0	(3.6)	12.9	-
(% of Net Sales)	9.7	9.4	9.0	10.8
Interest & other Charges	36	35	36	7
Other Income	2	6	7	0
(% of PBT)	2.6	6.3	6.4	1.3
<b>Recurring PBT</b>	<b>96</b>	<b>95</b>	<b>111</b>	<b>34</b>
% chg	159.4	(0.7)	16.9	-
Tax	21	22	28	7
(% of PBT)	22.1	22.9	25.2	21.4
<b>PAT (reported)</b>	<b>75</b>	<b>74</b>	<b>83</b>	<b>27</b>
Extraordinary Items	1	(1)	0	(0)
<b>ADJ. PAT</b>	<b>74</b>	<b>74</b>	<b>83</b>	<b>27</b>
% chg	150.4	0.4	12.4	-
(% of Net Sales)	5.5	5.6	5.3	7.1
<b>Basic EPS (₹)</b>	<b>7.8</b>	<b>7.8</b>	<b>8.8</b>	<b>2.8</b>
<b>Fully Diluted EPS (₹)</b>	<b>7.8</b>	<b>7.8</b>	<b>8.8</b>	<b>2.8</b>
% chg	150.4	0.4	12.4	-

Source: Company, Angel Research

**Exhibit 3: Balance Sheet**

Y/E March (₹ cr)	FY2017	FY2018	FY2019	1QFY20
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	45	90	90	90
Reserves & Surplus	198	227	311	338
<b>Shareholders Funds</b>	<b>243</b>	<b>317</b>	<b>401</b>	<b>428</b>
Total Financial Liabilities	121	169	126	118
Provisions	5	7	8	8
Deferred Tax Liability	12	13	14	11
<b>Total Liabilities</b>	<b>380</b>	<b>505</b>	<b>548</b>	<b>566</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	269	345	370	370
Capital Work-in-Progress	18	15	62	77
Investments	1	1	1	1
Loans	5	7	7	8
Other Non Current Assets	1	69	67	71
Current Assets	467	543	534	488
Inventories	174	242	201	219
Sundry Debtors	237	239	250	190
Cash	12	10	22	13
Loans & Advances	0	0	0	0
Other Assets	43	52	60	66
Current liabilities	380	475	492	448
<b>Net Current Assets</b>	<b>86</b>	<b>69</b>	<b>42</b>	<b>40</b>
Deferred Tax Asset	-	-	-	-
Mis. Exp. not written off	-	-	-	-
<b>Total Assets</b>	<b>380</b>	<b>505</b>	<b>548</b>	<b>566</b>

Source: Company, Angel Research

**Exhibit 4: Cash Flow Statement**

Y/E March (₹ cr)	FY2017	FY2018	FY2019	1QFY20
Profit before tax	96	95	111	34
Depreciation	33	38	5	1
Change in Working Capital	(47)	4	61	(21)
Interest / Dividend (Net)	32	32	33	6
Direct taxes paid	(22)	(16)	(31)	(6)
Others	5	8	(1)	5
<b>Cash Flow from Operations</b>	<b>97</b>	<b>162</b>	<b>221</b>	<b>30</b>
(Inc.)/ Dec. in Fixed Assets	(68)	(104)	(83)	(23)
(Inc.)/ Dec. in Investments	0	(67)	(22)	(9)
<b>Cash Flow from Investing</b>	<b>(68)</b>	<b>(170)</b>	<b>(105)</b>	<b>(32)</b>
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	25	42	(69)	1
Dividend Paid (Incl. Tax)	0	0	0	0
Interest / Dividend (Net)	(52)	(37)	(38)	(8)
<b>Cash Flow from Financing</b>	<b>(26)</b>	<b>6</b>	<b>(107)</b>	<b>(7)</b>
Inc./(Dec.) in Cash	3	(2)	9	(9)
<b>Opening Cash balances</b>	<b>0</b>	<b>3</b>	<b>0.2</b>	<b>0</b>
<b>Closing Cash balances</b>	<b>3</b>	<b>0.2</b>	<b>9</b>	<b>(8)</b>

Source: Company, Angel Research

**Exhibit 5: Key Ratios**

Y/E March	FY2017	FY2018	FY2019
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	22.9	22.8	20.3
P/CEPS	15.9	15.3	13.2
P/BV	7.0	5.3	4.2
Dividend yield (%)	0.0	0.0	0.0
EV/Sales	1.4	1.4	1.1
EV/EBITDA	11.2	11.4	9.7
EV / Total Assets	4.7	3.7	3.3
<b>Per Share Data (Rs)</b>			
EPS (Basic)	7.8	7.8	8.8
EPS (fully diluted)	7.8	7.8	8.8
Cash EPS	11.2	11.6	13.5
DPS	0.0	0.0	0.0
Book Value	25.5	33.3	42.2
<b>Returns (%)</b>			
ROCE	35.5	25.7	26.7
Angel ROIC (Pre-tax)	36.9	26.2	27.9
ROE	30.4	23.4	20.8
<b>Turnover ratios (x)</b>			
Asset Turnover (Gross Block)	5.0	3.8	4.3
Inventory / Sales (days)	48	67	47
Receivables (days)	65	66	58
Payables (days)	28	54	50
Working capital cycle (ex-cash) (days)	85	78	55

Source: Company, Angel Research

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