

Rating



Issue Details

Fresh issue of equity shares upto Rs 250 cr and OFS of Rs 250 Cr aggregating upto Rs 500 cr.

Issue Summary

Price Band (Rs)	177-178
Face Value (Rs)	10
Implied Market Cap (Rs Cr)	1,947-1,958
Market Lot	84 Shares
Issue Opens on	18 th Dec 2019
Issue Close on	20 th Dec 2019
No. Of share pre-issue	95,980,816
No. Of share post issue [^]	110,025,760
Listing	NSE & BSE

[^]@ upper price band

Issue Break-up

	%
QIB Portion	50.0
NIB Portion	15.0
Retail Portion	35.0

Book running lead Managers

JM Financial Ltd
Edelweiss Financial Services Ltd

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-issue	Post-issue
Promoters	90.1%	65.8%
Public + Others	9.9%	34.2%

Objects of the issue

Main Objects:

- Repayment or prepayment, of outstanding loans
- Financing the project cost towards
- Establishment of a new manufacturing facility*
- Up gradation of equipment
- General corporate purposes

Prince Pipes and Fittings Ltd is one of the leading manufacturers of polymer pipes and fittings with six manufacturing facilities located in North, West and South India. It is currently manufacturing four different types of polymers i.e. UPVC, CPVC, PPR and HDPE. Company markets its products under two brand names: Prince Piping Systems and Trubore. Its products are used for varied applications in plumbing, irrigation, and soil, waste and rain water management. Company's plants are located at 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 all six existing plants is 241,211 tonnes per annum as at October 31, 2019.

Industry Outlook:

As per CRISIL Research, the plastic pipes and fittings industry is expected to grow at CAGR of 12-14% to Rs 500-550 bn by FY24 from Rs 290-300 bn in FY19. Low per-capita consumption of plastic, shift in demand segmentation by type, several government initiatives will drive the demand for pipe industry. Plastic pipes are made of four different types of polymers i.e. Unplasticised Polyvinyl chloride (UPVC), which represents 65% of industry demand, Chlorinated Polyvinyl chloride (CPVC) – 15%, HDPE – 15% and polypropylene (PPR) – 4%. India has very low per-capita plastic consumption of plastic about 11 kg, compared with the global average of 30 kg.

Key Highlights:

- Prince Pipes has comprehensive product portfolio across polymers not just a pipe manufacturer but also end-to-end piping systems supplier. Company has 7,167 SKUs (Stock keeping unit) as at October 31, 2019 and its products are used for varied applications in the fields of plumbing, irrigation, and SWR (Soil, waste and rain water) management.
- **It has strong distribution network:** Company sells its products to distributors, who then resell the products to wholesalers, retailers, and plumbers. Company has a pan-India network of distributors for Prince Piping systems products. As at October 31, 2019, it had 1,408 distributors out of which ~80% distributors are exclusive. It has 46,171 touch points.
- Company's 40% sales come from north region.
- Company is planning to set up a new manufacturing plant in Telangana with a total estimated installed capacity of 51,943 tonnes per annum.
- The company is amongst the top six organized players, which collectively have a total market share of 49% in Fiscal 2019. Prince Pipes & Fitting is one of the leading organized players with a market share of ~5% in Fiscal 2019.

Valuation and View:

At the upper price band of Rs 178, the stock is offered at 23.5x P/E (post issue), which is little expensive considering its debt status and low margin profile as compared to its peers. However, the company has reduced its debt in FY19 and post this issue it will further come down. Company has posted decent performance in FY19 and management is expecting 12-15% growth in the plastic industry. We have a 'Neutral' view on the issue and assign two star rating on the same.

Key Financial Indicators

Income Statement			
Year to 31st March (Rs.Cr)	FY17	FY18	FY19
Revenue	1330	1321	1572
EBITDA	163	169	193
EBITDA Margin (%)	12.3	12.8	12.3
PAT	75	73	83
PATM (%)	5.6	5.5	5.3
EPS	7.9	8.1	9.3
RoE (%)	30.7	26.4	20.5
ROCE (%)	24.8	20.8	22.6
Debt-Equity (x)	1.3	1.2	0.7
P/E ^	22.7	22.0	19.2

^ At upper price band

Peer Group Comparison

Bank Name	CMP	Revenue (in Cr.)	EBITDA M (%)	PAT (in Cr.)	EPS (Rs)	RoE (%)	ROCE (%)	D/E (x)	P/E
Prince Pipes^	178	1,572	12.3	83	9.3	20.5	21.5	0.74	19.2
Astral poly Technik	1145	2,507	16.0	196	16.3	18.1	23.1	0.23	70.1
Finolex Industries	550	3,091	20.9	367	29.6	13.2	19.7	0.04	18.6
Supreme Industries	1131	5,612	14.3	449	35.3	21.5	30.7	0.08	32.0

^ At upper price band

Key Managerial Personnel	
Jayant Shamji Chheda (Chairman and MD)	He has been associated with our Company since incorporation as a Director. He has over three decades of experience in the plastic industry.
Parag Jayant Chheda (Executive Director)	He holds an associate degree in business administration from Oakland Community College. He has over 21 years of experience in the piping industry.
Vipul Jayant Chheda (Executive Director)	He holds a higher secondary certificate from the Maharashtra State Board of Secondary and Higher Secondary Education. He has over 20 years of experience in the piping industry.
Shyam Kishanchand Sharda (Chief Financial Officer)	He has a bachelor's degree in commerce from Jodhpur (Rajasthan) University. He has previously worked with S. Kumar Nationwide Limited as senior vice-president-finance & group accounts, United Phosphorus Limited as deputy general manager-finance. He has approximately 20 years of experience in the field of finance, accounts and taxation.

Objectives of issue:

- Repayment or prepayment of outstanding loans.
 - Financing the project cost towards establishment of a new manufacturing facility, either set up directly or indirectly (through a wholly-owned subsidiary that our Company may set up in the future).
 - Up gradation of equipment at our manufacturing facilities; and
 - General corporate purposes
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Competitive Strength:

- Strong brands in the pipes and fittings segment with over 30 years' experience
 - Strategically located manufacturing facilities with a core focus on quality
 - Strong management team
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Risk Factors:

- Reduced demand for plumbing products
 - Change in government stance with regard to building of new houses and related infrastructure
 - Tepid growth of agriculture segment
 - Competition from peers
 - Volatility in raw material prices (Crude)
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Outstanding Litigation against the company

Two of the company's Promoters, Jayant Shamji Chheda (Chairman and Managing Director), and Heena Parag Chheda, are also partners in M/s Aditya Developers, a partnership firm that forms a part of Promoter Group, in which they each own a 10% interest. Aditya had entered into a joint venture agreement dated December 30, 2010 with Montana Developers Private Limited. Montana initiated arbitration proceedings against Aditya and its partners, including Jayant Shamji Chheda and Heena Parag Chheda, seeking, inter alia, specific performance of all the obligations under the JV Agreement along with damages from Aditya and its partners. It cannot be assured that an adverse order in relation to the Claim will not be passed which may lead to the 2 promoters jointly and severally being subjected to pay damages to the full extent as claimed by Montana, i.e., up to Rs 905 cr, along with applicable interest.

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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