

# PRINCE PIPES AND FITTINGS LTD

## IPO

PRICE BAND : ₹ 177-₹ 178

*OUR RECOMMENDATION*

**“NEUTRAL”**



# **THE OFFER**

**Issue Open : 18<sup>th</sup> Dec 2019 to 20<sup>th</sup> Dec 2019**

**»» Issue Type: Book Built Issue IPO**

**»» Total Issue Size: ₹ 500 cr**

**Fresh issue: 14,044,943.82 Equity Shares @ 10 aggregating up to ₹ 250cr**

**Offer for sale: 14,044,943.82 Equity Shares @ 10 aggregating up to ₹ 250cr**

**»» Face Value: ₹ 10 Per Equity Share**

**»» Issue Price: ₹ 177 - ₹ 178 Per Equity Share**

**»» Market Lot: 84 Shares**

**»» Minimum Order Quantity: 84 Shares**

**»» Listing At: NSE & BSE**



# **CAPITAL STRUCTURE**

**The share capital of Company, is set forth below:-**

**(Amount in ₹ except share data)**

**Authorized Share Capital :-**

144,035,000 Equity Shares @10 Aggregate value ₹ 1,440,350,000

**Issued, subscribed and paid up capital before the Offer :-**

95,980,816 Equity Shares @10 Aggregate value ₹ 959,808,160

# **OBJECT OF THE OFFER**

**The objects of the Offer are:**

- Repayment or prepayment of certain outstanding loans
- Financing the project cost towards establishment of a new manufacturing facility
- Up-gradation of equipment at manufacturing facilities; and
- General corporate purposes.

# COMPANY OVERVIEW

Having more than 30 years of experience in polymer pipes segment, Prince pipes is recognized as one of the leading polymer pipes and fittings manufacturers in India in terms of number of distributors .

Company market its products under two brand names: **Prince Piping Systems** and **Trubore**. It manufacture polymer pipes using four different polymers: **UPVC; CPVC; PPR; and HDPE**, and fittings using three different polymers: **UPVC; CPVC; and PPR** .

Its Products are used for varied applications in plumbing, irrigation, and soil, waste and rain water (“SWR”) management, for both rural & urban markets.

# PLANT LOCATIONS

Having six strategically located manufacturing plants (as stated below), gives strong presence in North, West and South India.

- 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)*

# WAY FORWARD

➤ Going forward, company plans to expand the installed capacity at **Jobner plant (Rajasthan)** from 6,221 tonnes per annum (as on oct.19) to **17,021 TPA** by December end 2019 and to **20,909 TPA** by the end of next financial year.

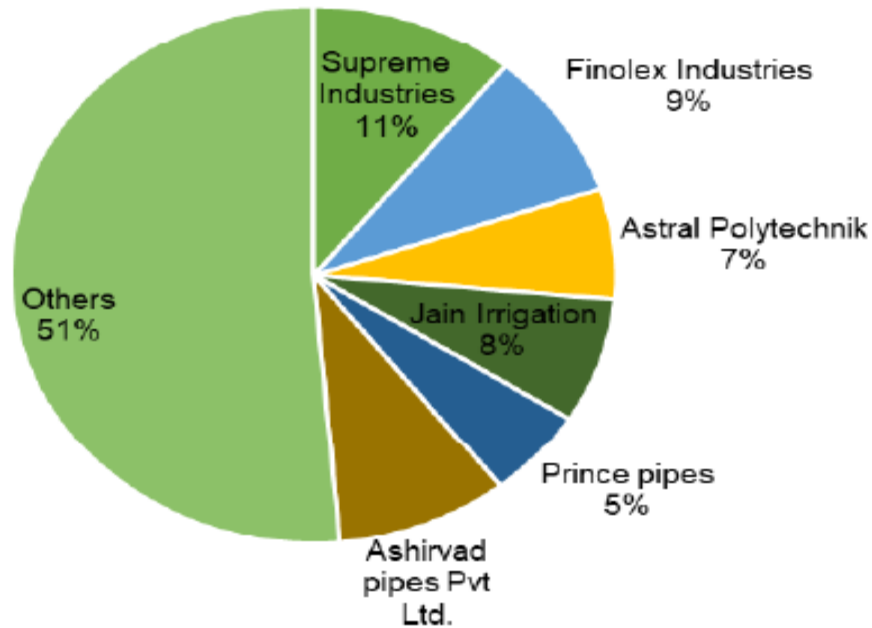
➤ Also, company plans to use ₹184 cr of the Net Proceeds of the Fresh Issue and the proceeds from the Pre-IPO Placement towards setting up a new plant in **Sadashivpet Mandal, district of Sangareddy, Telangana**, which may be undertaken directly or indirectly, through a subsidiary. The estimated total cost for the setting up of the plant is ₹196 cr. Out of which, already ₹12.1cr is cost is incurred for land & other expenses.

***The total estimated installed capacity is 51,943 tonnes per annum and is expected to commence production in FY 2021.***

- Company currently market and sell its **Trubore brand** products in **South India**, primarily in Tamil Nadu representing 79.60% & 76.18% of total revenue from such brand as on FY19 & Q1 FY20.
- Going ahead, Prince pipes is planning to increase sales of this brand products by heighten marketing efforts and the number of wholesalers and retailers. *Thus, initially company would increase presence in all other states in South India and then gradually enter into North, East and West India, thereby making Trubore brand a pan-India brand in the next three or four years.*



# MARKET SHARE



*The share of Prince Pipes and Fittings increased to 5% in FY 2019 from 4.5% in FY 2016.*

# PEER ANALYSIS

		Prince Pipes and Fittings Limited	Supreme Industries Ltd. <sup>(1)</sup>	Finolex Industries Ltd. <sup>(1)</sup>	Astral Polytechnik Ltd. <sup>(1)</sup>	Jain Irrigation Systems Ltd. <sup>(1) (2)</sup>	Ashirvad Pipes Pvt. Ltd.
Year	Unit	FY19	FY19	FY19	FY19	FY19	FY19
Operating Income	₹ mn	15,719	56,081	30,868	19,175	44,885	26,728
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	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

# **STRATEGIES AHEAD**

- Continue to optimize product mix to improve margins
- Increase sales of DWC pipes
- Set up a new manufacturing plant in Telangana and expand capacity at Rajasthan plant.
- Expanding distribution network both in new areas as well as in areas where we already have a strong presence
- Expand the Trubore brand to new geographies
- Brand building through major marketing initiatives

# **STRENGTHS**

- Strong brands in the pipes and fittings segment with over 30 years' experience
- Strategically located manufacturing facilities with a core focus on quality
- Technical collaboration with a reputed international player, Wavin Overseas B.V. ("Wavin")
- Large and growing distribution network
- Comprehensive product portfolio across polymers serving diverse end-use applications

# FINANCIAL HIGHLIGHTS

Revenue from operations grew at a CAGR of 8.71% at ₹1571.87 cr for FY19 & ₹ 379.77cr for the three-month period ended June 30, 2019.

PBT grew at a CAGR of 7.81% at ₹ 111.47 cr for FY19 & ₹ 33.93cr for the three-month period ended June 30, 2019.

PAT grew at a CAGR of 6% at ₹ 83.35 cr for FY19 & ₹ 26.67cr for the three-month period ended June 30, 2019.

EPS increased to ₹ 9.26 for FY19 & delivered ₹ 2.96 for Q1FY20.

As at June 30, 2019, the Net Worth of Company was ₹420.46 cr.

***The demand for plumbing products and SWR management products is closely tied to the levels of residential and non-residential construction activity in India.***

# RISK FACTORS

- Reduction in the activity in plumbing & SWR management products markets could have a material adverse effect on business
- Reduction in demand for irrigation products.
- A bad Monsoon season
- High competition from organized and unorganized pipe manufacturers.
- Increase in cost of raw material (crude oil prices).
- Certain promoters & directors have over Rs 900cr outstanding litigations w.r.t their exposure to real estate projects.

# VALUATION

Prince pipes has pan-India distribution network with diverse product portfolio. Also, financials of the company seems sound with a 9% CAGR revenue growth and healthy margins. By FY21 it is planning to expand the current Capacity for Rajasthan & Telangana plant. Also, by next 3-4 years, the trubore brand is expected to enter new geographies and become a pan-India Brand.

*However, having said that, it does not mitigate the risk associated with Prince pipes. As per RHP, some directors & promoters have outstanding litigations over ₹900cr w.r.t their exposure to real estate projects. Also, increase in crude oil prices & high competition from the organized & unorganized manufactures may hurt its valuation in long term.*

**On a upper price band of ₹ 178, with estimated EPS at ₹ 9.70 for FY 20, the stock is available at a P/E ratio of 18.35x which is fairly priced. Other peers in the industry are trading at much higher P/E of 70x. The industry too commands an average P/E of 40x. However, considering risk associated with Prince pipes(as stated above), we maintain “Neutral stance” to the IPO.**

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