

## Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

# CRISIL

An S&P Global Company

### Rating Rationale

January 05, 2022 | Mumbai

## Prince Pipes and Fittings Limited

Ratings upgraded to 'CRISIL A+/Stable/CRISIL A1+'; rated amount enhanced for Bank Debt

#### Rating Action

Total Bank Loan Facilities Rated	Rs.668 Crore (Enhanced from Rs.591 Crore)
Long Term Rating	CRISIL A+/Stable (Upgraded from 'CRISIL A/Positive')
Short Term Rating	CRISIL A1+ (Upgraded from 'CRISIL A1')

Rs.50 Crore Commercial Paper	CRISIL A1+ (Upgraded from 'CRISIL A1')
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities and commercial paper program of Prince Pipes and Fittings Limited (PPFL) to 'CRISIL A+/Stable/CRISIL A1+' from 'CRISIL A/Positive/CRISIL A1'.

The upgrade reflects the sustained improvement in the company's business risk profile driven by the healthy revenue growth and operating efficiencies. Despite covid-19 pandemic, revenue has continued to grow at a brisk pace backed by strong realization and steady volumetric sales. Revenue was Rs 1092 crore in H1 FY22, a 43.5% y-o-y growth as compared to H1 FY21 and 35% y-o-y growth from revenue in H1 FY20. Volume sales declined by 25.5% y-o-y to 18466 MT in Q1 FY22 and the same was on account of disruptions due to second wave of Covid-19. However, the business saw sharp recovery, with volume sales increasing by 22% y-o-y to 42845 MT in Q2 FY22. Operating margin continued to remain healthy at 15.02% during H1 FY22 and is expected to remain in the range of 15-16% going ahead. Return on capital employed is also expected to be at healthy level at around 23-25% over the medium term.

The ratings reflect the strong business risk profile marked by its market position in domestic plastic pipe industry supported by diverse product portfolio, geographical presence, and end-user industry, extensive experience of promoters, and a robust financial risk profile. These rating strengths are partially offset by presence in a highly competitive industry, moderate capacity utilization, susceptibility to volatility in raw material prices, and moderate working capital requirements.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- Strong business risk profile marked by company's market position in domestic plastic pipe industry supported by diverse product portfolio, geographical presence, and end-user industry:** PPFL is one of the top six players in the pipes & fittings market in India. The growing market position is supported by well-known brands 'Prince' and 'Trubore' and the diverse product offerings with presence in un-plasticized polyvinyl chloride (UPVC), Chlorinated polyvinyl chloride (CPVC), Polypropylene random (PPR) and High-density polyethylene (HDPE) segments. PPFL has an established track record and market position in the segments it operates in backed by its widespread distribution network pan India and seven strategically located plants in Athal, Haridwar, Chennai, Kolhapur, Dadra, Jaipur and Telangana. PPFL's revenue has witnessed a healthy CAGR of 15.43% over past five fiscals ended 2021 to record an operating income of Rs 2071.5 crore. This improvement has continued in current fiscal as well despite the Covid-19 pandemic, as reflected in revenue of Rs 1092 crore in H1 FY22 vs. Rs 761 crore in H1 FY21. The market position is also supported by PPFL's presence in diverse end-user industries like agriculture, plumbing, and SWR segments. Business risk profile will continue to be supported by strong market position in domestic plastic pipe industry.
- Extensive experience of promoters:** The promoters have been involved in the pipes & fittings industry for over three decades. Over their extensive tenure, the promoters have developed a sound understanding of the local market dynamics and established strong relations with suppliers and customers.
- Robust financial risk profile:** A strong network, healthy capital structure, and healthy debt-protection metrics keep the financial risk profile robust despite the on-going capex. Networth was strong at Rs 1038.4 crore and gearing was low at 0.08 time, as on 31st March 2021. Networth is expected to be over Rs 1230 crore with gearing of below 0.2 time as on March 31, 2022. Furthermore, the debt-protection metrics were healthy, with interest cover and net cash accruals to adjusted debt (NCAAD) ratio of 17.8 times and 3.1 times, respectively, in fiscal 2021. Interest cover and NCAAD are expected to be 25-30 times and over 2 times, respectively in fiscal 2022.

##### Weaknesses:

- Presence in a highly competitive industry, moderate capacity utilization and susceptibility to volatility in raw material**

**prices:** The pipes and fittings industry is highly competitive, especially in the commoditized products segment, which has low differentiation, thus resulting in the brand facing competition from both organized and un-organized segments. Company has a significant dependence on retail segment with institutional segment contributing to only 2-3% of the total revenue. Company has a moderate capacity utilization and the same is on account of multiple SKUs. PPFL is also susceptible to volatility in the prices of key raw material, PVC, which is a crude oil derivative and hence affected by change in crude oil prices, and foreign exchange rates, albeit partly offset by its ability to pass on price fluctuations to the consumers.

- **Moderate working capital requirements:** Company has moderately intensive working capital operations, with Gross current asset (GCA) days in the range of 120-150 days over last five fiscals ended 2021. GCA days were 150 days as on 31st March 2021, driven by debtors and inventory of 62 days and 49 days, respectively. Company has moderate inventory holding as it is dealing in multiple SKUs and hence has to maintain raw material and finished goods inventory for the same. Currently there is an increase in inventory levels due to higher RM prices, moderate supply chain constrains prompting higher inventory cushion to be maintained. However, this is expected to moderate over medium term. Debtor management is efficient. GCA days are expected to be in the range of 160-175 days (140-150 days net of cash) over the medium term.

#### **Liquidity: Strong**

Liquidity is backed by large cash accruals, absence of any long-term debt, moderate bank limit utilization, and a healthy cash & bank balance. The average utilization in bank lines is 61% over the 7 months ended Oct-2021. The cushion in bank lines will support the incremental working capital requirements. PPFL is expected to generate net cash accruals of Rs 260-340 crore per fiscal over the medium term. Unencumbered cash and bank balance was Rs 3.50 crore and unencumbered FDs (from IPO Proceeds) were Rs 117.85 crore as on Sept 30, 2021. Apart from this, there were liquid investments of Rs 20.05 crore as on Sept 30, 2021. The company is also expected to maintain liquidity back up for the full extent of outstanding rated short-term facilities.

#### **Outlook: Stable**

CRISIL Ratings believes PPFL's business risk profile will continue to benefit from the extensive industry experience of its promoters, its established market position and robust financial risk profile.

#### **Rating Sensitivity factors**

##### **Upward Factors**

- Sustained growth in revenue and operating margin of over 15%
- Efficient working capital management and sustenance of financial risk profile.

##### **Downward Factors**

- Significantly lower-than-expected revenue, with operating margin falling below 13%
- Weakening of capital structure, with gearing increasing beyond 1 time, because of large, debt-funded capex or acquisition or any large dividend payout or share buy-back
- Sizeable stretch in the working capital cycle
- Significant dividend pay-out or loans extended to promoters in order to meet liabilities arising out of litigation at promoters' personal capacity

#### **About the Company**

Incorporated in 1987, PPFL is Mumbai-based company and engaged in manufacturing of plastic pipes and fittings using four different polymers: UPVC, CPVC, PPR and HDPE. The company has a corporate office in Mumbai (Maharashtra). PPFL is promoted by Mr Jayant Shamji Chheda, his two sons Mr Parag Jayant Chheda and Mr Vipul Jayant Chheda, and by Mrs. Tarla Jayant Chheda and Mrs. Heena Parag Chheda.

#### **Key Financial Indicators**

Particulars	Unit	2021	2020
Revenue	Rs.Cr	2072	1636
Profit After Tax (PAT)	Rs.Cr	221	113
PAT margins	%	10.7	6.9
Adjusted Debt/Adjusted Networth	Times	0.08	0.31
Interest coverage	Times	17.79	7.30

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	217	NA	CRISIL A+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	451	NA	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	50	Simple	CRISIL A1+

## Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	217.0	CRISIL A+/Stable		--	29-10-21	CRISIL A/Positive	30-09-20	CRISIL A-/Stable		--	--
			--		--	26-10-21	CRISIL A/Positive		--		--	--
			--		--	29-07-21	CRISIL A/Positive		--		--	--
			--		--	23-07-21	CRISIL A/Positive		--		--	--
			--		--	13-07-21	CRISIL A/Positive		--		--	--
Non-Fund Based Facilities	ST	451.0	CRISIL A1+		--	29-10-21	CRISIL A1	30-09-20	CRISIL A2+		--	--
			--		--	26-10-21	CRISIL A1		--		--	--
			--		--	29-07-21	CRISIL A1		--		--	--
			--		--	23-07-21	CRISIL A1		--		--	--
			--		--	13-07-21	CRISIL A1		--		--	--
Commercial Paper	ST	50.0	CRISIL A1+		--	29-10-21	CRISIL A1		--		--	--

All amounts are in Rs.Cr.

## Annexure - Details of Bank Lenders &amp; Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan	30	HDFC Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	25	Standard Chartered Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	27	ICICI Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	25	Axis Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	32	The Federal Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	40	DBS Bank India Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	25	IDFC FIRST Bank Limited	CRISIL A+/Stable
Cash Credit & Working Capital Demand Loan	13	IDFC FIRST Bank Limited	CRISIL A+/Stable
Letter of credit & Bank Guarantee	2	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	25	Axis Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	45	IDFC FIRST Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	83	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	40	The Federal Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	35	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	35	DBS Bank India Limited	CRISIL A1+
Letter of credit & Bank Guarantee	42	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	22	ICICI Bank Limited	CRISIL A1+

Letter of credit & Bank Guarantee	5	DBS Bank India Limited	CRISIL A1+
Letter of credit & Bank Guarantee	10	IDFC FIRST Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	5	The Federal Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	38	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	4	IDFC FIRST Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	40	The Federal Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	20	Axis Bank Limited	CRISIL A1+

This Annexure has been updated on 05-Jan-2022 in line with the lender-wise facility details as on 05-Jan-2022 received from the rated entity.

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

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