

# PRINCE PIPES AND FITTINGS

## Entering the big league

India Equity Research | Plastic Pipes and Fittings

Prince Pipes & Fittings (PPFL)—leading player in fast-growing plastic pipes industry (12-14% CAGR)—has reaped benefit of demand shift to organised players. Underpinned by a comprehensive product range, presence across segments (agri, infra, plumbing) and pan-India brand & distribution, it has clocked 11%, 23% and 48% revenue, EBITDA and PAT CAGR, respectively, over FY15-20—highest in industry. PPFL is well placed to outpace industry riding capacity & geographical expansion. Despite being among the top-5 players, the huge valuation discount (~50% to Supreme, ~70% to Astral) compared to leaders entails re-rating potential riding strong FCF (FY21-22E: INR2bn) and balance sheet (D/E: 0.3x in FY20); improved brand visibility, easing corporate governance issues and tie up with Lubrizol are further catalysts. Initiate with 'BUY' and TP of INR281.

### Competitive moat in fastest-growing category

PPFL is among the dominant players in the fast growing plastic pipes industry (12-14% CAGR over FY19-24). The industry has been characterised by demand shift to organised (65%) and consolidation (top-5 players >40% market). The company's comprehensive product range, diversified revenue stream and brand & distribution heft have helped it reap benefits, propelling it from a tier II to amongst the top-5 industry players.

### A quiver full of catalysts to spur market share gains

The company has ample growth levers to gain further market share: 1) **Tie-up with Lubrizol**: To spur growth in high-margin CPVC business & boost presence in projects. 2) **Capacity & geographical expansion**: While Telangana plant will deepen southern presence, the Jaipur plant will bolster position in North. 3) **Sharpening high-margin products focus**: Maximising sales of high-margin fittings.

### Outlook and valuation: Valuation gap to narrow; initiate with 'BUY'

PPFL is poised for higher growth spurred by robust agri demand, government's infra push, demand shift to organised players and healthy rural & semi-urban demand. We also perceive strong rerating potential led by rising market share, brand & distribution heft, healthy cash flow, debt reduction, easing corporate governance issues along with recent tie up with global leader Lubrizol. We initiate coverage with 'BUY' and TP of INR281. We value the stock at 24x FY22E PE (~20% discount to industry leader—SIL).

#### Financials

Year to March	FY19	FY20	FY21E	FY22E
Net revenues (INR mn)	15,719	16,357	14,269	18,113
EBITDA (INR mn)	1,859	2,288	1,818	2,505
Adj. profit (INR mn)	833	1,125	803	1,289
Adj. diluted EPS (INR)	7.6	10.2	7.3	11.7
Diluted P/E (x)	28.6	21.2	29.7	18.5
EV/EBITDA (x)	14.1	10.4	12.5	8.8
ROAE (%)	23.3	18.2	9.1	13.1

#### EDELWEISS RATINGS

<b>Absolute Rating</b>	<b>BUY</b>
Investment Characteristics	Growth

#### MARKET DATA (R: PRCE.BO, B: PRINCPIN IN)

CMP	: INR 216
Target Price	: INR 281
52-week range (INR)	: 227 / 75
Share in issue (mn)	: 110.0
M cap (INR bn/USD mn)	: 24 / 324
Avg. Daily Vol. BSE/NSE ('000)	: 661.9

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	63.2	85.7	85.7
MF's, FI's & BKs	18.8	8.9	8.6
FII's	0.7	2.6	2.6
Others	17.3	2.8	3.1
* Promoters pledged shares (% of share in issue)	:	NIL	

#### RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	3.5	87.1	83.6
3 months	14.7	100.9	86.2
12 months	6.2	NA	NA

#### Sneha Talreja

+91 22 4040 7417  
sneha.talreja@edelweissfin.com

#### Rohan Gupta

+91 22 4040 7416  
rohan.gupta@edelweissfin.com

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### Investment Rationale

#### Fifth largest player in industry; enough room to gain market share

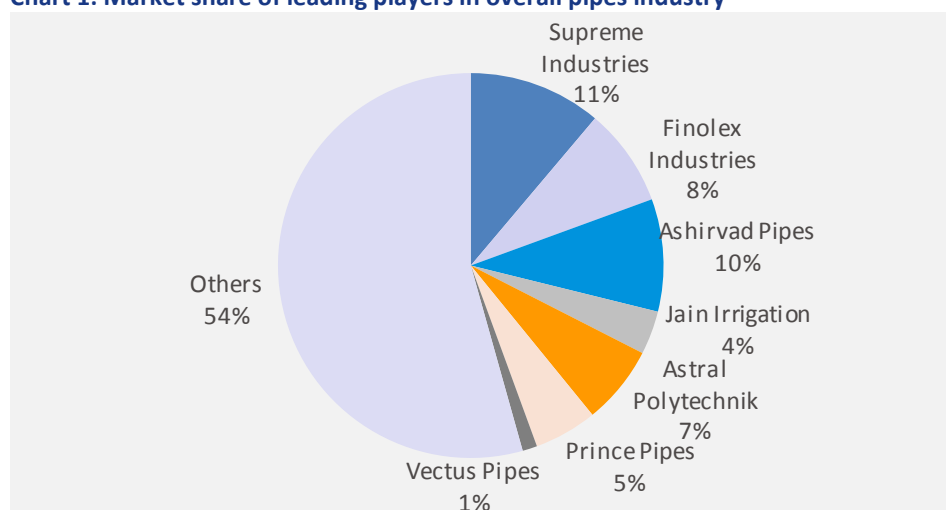
PPFL is a leading player in the fast-growing plastic pipe industry and has successfully transitioned from being a primarily tier-II player to now amongst the top 5. The company has all the ingredients—comprehensive product range, diversified revenue stream, strong brand, distribution heft and wide range of SKUs—to gain market share.

PPFL features among top-5 players and holds 5% market share in overall pipes industry and 8% share in organised pipes industry

#### Successful transition from tier-II player to amongst top 5

PPFL is among leading polymer pipes manufacturers in India with pan-India distribution network and a well-diversified product basket. The company's strong legacy of more than three decades in the polymer pipes segment has helped it create strong brand equity and enter the top-5 pipes manufacturers' club (account for 41% of industry).

**Chart 1: Market share of leading players in overall pipes industry**



Source: Company, CRISIL Research, Edelweiss research

#### Tie-up with Lubrizol to boost CPVC pipes sales

PPFL used to import a substantial amount of CPVC resin from China and Korea, on which anti-dumping duty (ADD) has been imposed. Although the company was able to successfully switch to raw material import from Japan, Europe, etc., on August 24, 2020, it announced tie-up with Lubrizol to manufacture and sell CPVC pipes under the *Flow Guard* brand.

We understand that the brand has an edge in project business and provide easy entry to projects because the brand is the first choice among builders. Thus, for PPFL, the *Flow Guard* brand not only provides easy access in projects business, but also helps to stand out as a quality player (as Lubrizol is known to provide premium compounds).

However, PPFL now will be the third brand using *Flow Guard*, which is currently used by Finolex and Ashirwad as well. We believe with more partners joining Lubrizol, the brand's exclusivity is getting diluted and will increase competition within large players in the projects segment.

Tie up with Lubrizol provides seamless entry into projects with Prince Flow Guard Plus brand

Anti-dumping duty on CPVC resins to aid further consolidation in already organised industry (organised players control ~80%)

With sharpening focus on creating brand awareness, PPFL has roped in Akshay Kumar as brand ambassador

Further, when CPVC resin imports got dearer, it was expected to impact PPFL's margin. However, in Q4FY20, contrary to expectations, the company's margin expanded, which it believes is sustainable as the company was able to successfully pass on the increase in CPVC raw material cost. Further, our channel checks indicate strong consolidation in the CPVC industry as smaller players face issues in sourcing raw material at right prices. Moreover, even if availability is not an issue, the steep hike in raw material prices has battered these players' margins, which are now not lucrative enough.

### Technical collaboration with Tooling Holland

In August 2020, PPFL announced technical collaboration with Tooling Holland, a company with over 30 years of experience in the development and production of injection moulds. The collaboration will enable PPFL offer high quality products while also bringing in improvement in productivity and cost efficiency.

### Strong brand recall in pipes segment

PPFL has a strong brand name in the plastic pipes segment with its ad spends largely targeting influencers and channel partners (70% of total budget on below the line). Going ahead, PPFL aims to maintain its brand spend at 2.0-2.5% of revenue over the next two-three years.

Chart 2: Increasing focus on branding

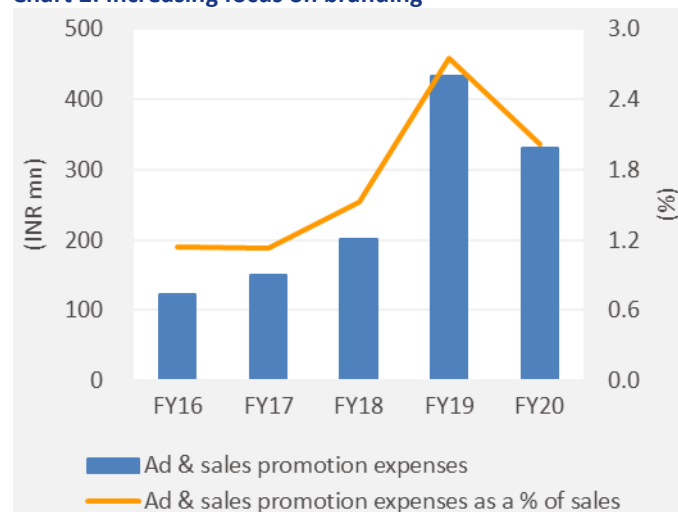


Table 1: Gradually increasing brand spend

Ad & sales promotion expenses as a % of sales	FY16	FY17	FY18	FY19	FY20
<b>Pipes</b>					
Astral poly technik	2.3	2.9	3.2	3.5	3.5
Ashirvad Pipes	4.0	2.5	2.5	2.2	NA
Finolex Industries	1.1	1.3	1.4	2.2	1.6
Prince Pipes	1.1	1.2	1.5	2.8	2.0
Supreme Industries	1.0	1.1	1.2	1.4	1.3
<b>Total Pipes segment</b>	<b>1.5</b>	<b>1.5</b>	<b>1.7</b>	<b>2.1</b>	<b>NA</b>
<b>Plywood and Laminates segment</b>	<b>3.9</b>	<b>4.0</b>	<b>3.2</b>	<b>3.8</b>	<b>NA</b>
<b>Tiles and Sanitaryware segment</b>	<b>2.2</b>	<b>3.4</b>	<b>3.7</b>	<b>3.0</b>	<b>NA</b>

Source: Company, Edelweiss research

Fig. 1: PPFL's advertisement focus



Source: Company

Strong and balanced exposure to plumbing, irrigation, sewage disposal and underground drainage differentiates PPFL from peers

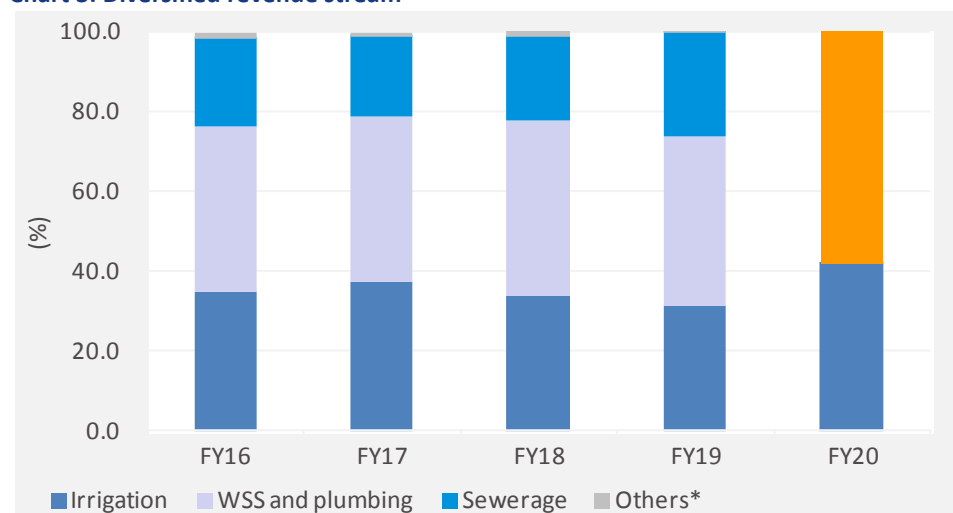
### Comprehensive product portfolio serving diverse end-use applications

PPFL has a well-diversified product portfolio with 7,167 SKUs as on Mar 31, 2020, with presence across varied applications in plumbing, irrigation, sewage disposal and underground drainage. What differentiates the company from its peers is a balanced market share across applications with no over dependence on one particular industry.

**Fig. 2: PPFL's positioning in diversified end-user industry**



**Chart 3: Diversified revenue stream**



Source: Company, Edelweiss research

Note: \* For FY20 others include Sewerage, WSS and plumbing

**Table 2: Range of products compared to its competitors**

Company Name	UPVC	CPVC	HDPE	PPR
Ashirvad Pipes	✓	✓	×	×
Astral Polytechnik	✓	✓	✓	×
Finolex Industries	✓	✓	×	×
Jain Irrigation	✓	✓	✓	✓
Prince Pipes	✓	✓	✓	✓
Supreme Industries	✓	✓	✓	✓

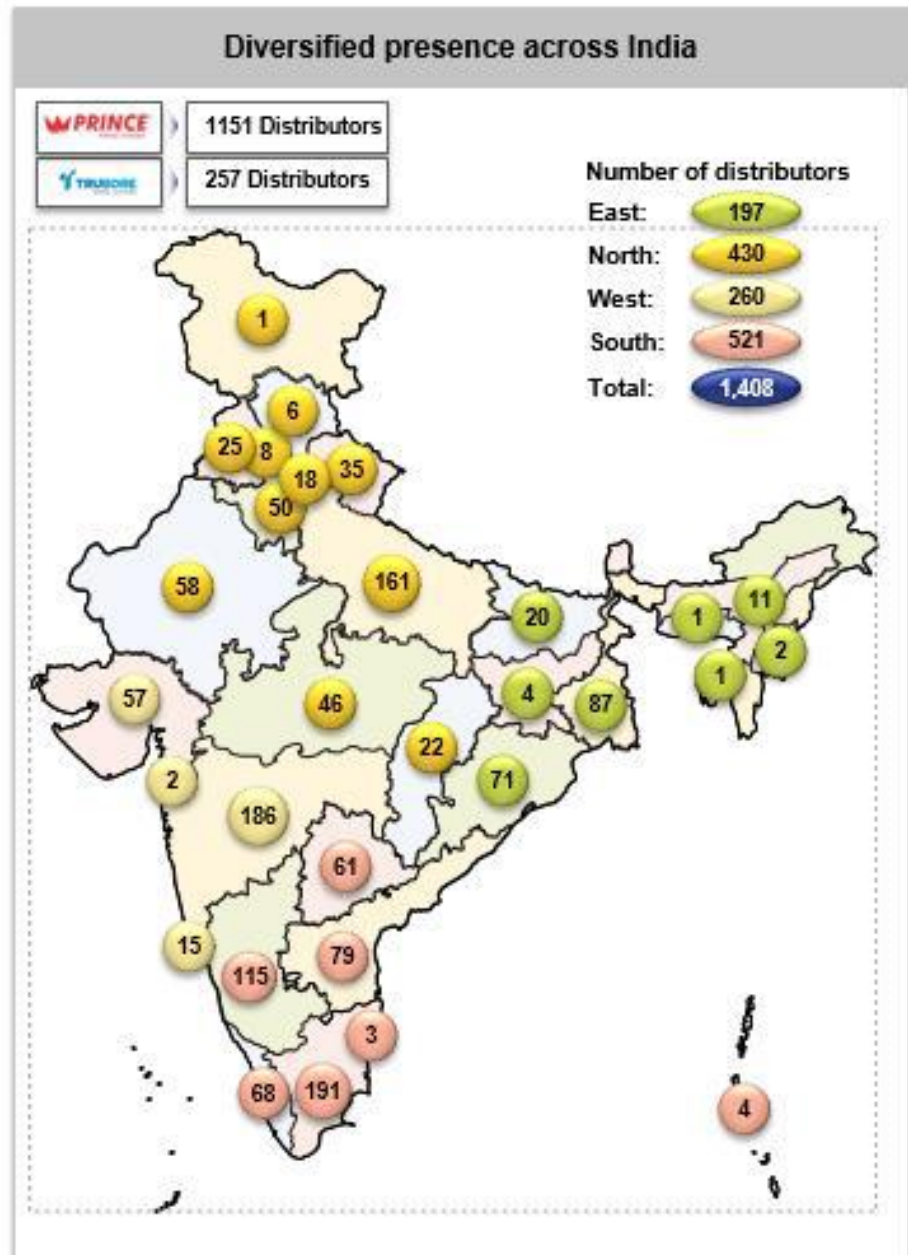
Source: Company, CRISIL Research, Edelweiss research

PPFL follows strategy of Winning in Many India's (WiMi)—creating strong network across urban, semi-urban and rural India

### Strongest distribution networks across urban, semi-urban, rural areas

PPFL has one of the strongest distribution networks with 1,408 distributors, higher than its peers in the plastic pipes segment. Further, the company's strategy is to focus on expanding the width and depth of its distribution network by increasing the number of distributors and the frequency and quantity of its products purchased by retailers through its distributors. Strong distribution network and reach is more important now than ever in the face of covid-19 since semi-urban and rural India has been less impacted and has recovered.

**Fig. 4: Geographical distribution spread**



Source: Company, Edelweiss research

The company incurs lowest freight cost in the industry led by its wide spread multi-location plants

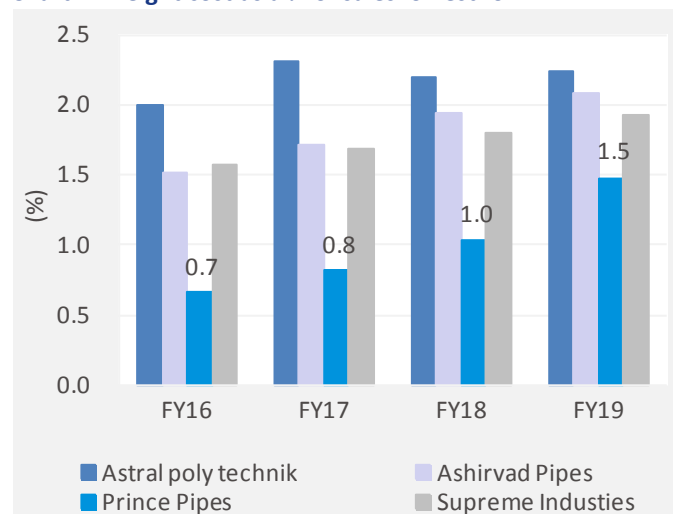
### Strategically located manufacturing facilities help control freight cost

One of the major factors contributing to PPFL's success is the presence of its brands in regional markets across India. Since transportation cost also plays an important role due to the large size of pipes, it becomes important to be located close to customers. PPFL's multi-location facilities have aided market penetration, apart from a large distribution base. This has also helped the company develop strong presence in North, West and South India. Since freight constitutes a significant part of cost structure of the plastic pipes industry, plants located near raw material sources/ports and principal markets help improve cost efficiencies.

**Table 3: PPFL's reach compared to competitors**

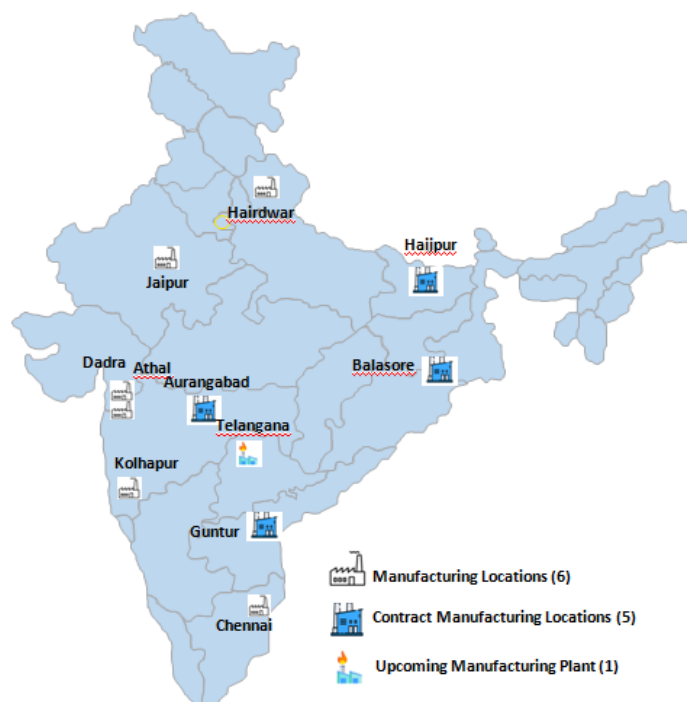
Company	Location of Plants - State(s)/Union Territory
Ashirvad Pipes	Karnataka; and Rajasthan
Astral Polytechnik	Gujarat; Tamil Nadu; Rajasthan; Maharashtra; and Uttarakhand
Finolex Industries	Maharashtra; and Gujarat
Jain Irrigation	Maharashtra; Gujarat; Tamil Nadu; Rajasthan; and Andhra Pradesh
Prince Pipes	Maharashtra; Tamil Nadu; Uttarakhand; Dadra and Nagar Haveli; and Rajasthan
Supreme Industries	Maharashtra; Uttar Pradesh; Madhya Pradesh; and West Bengal

**Chart 4: Freight cost as a % of sales lowest for PPFL**



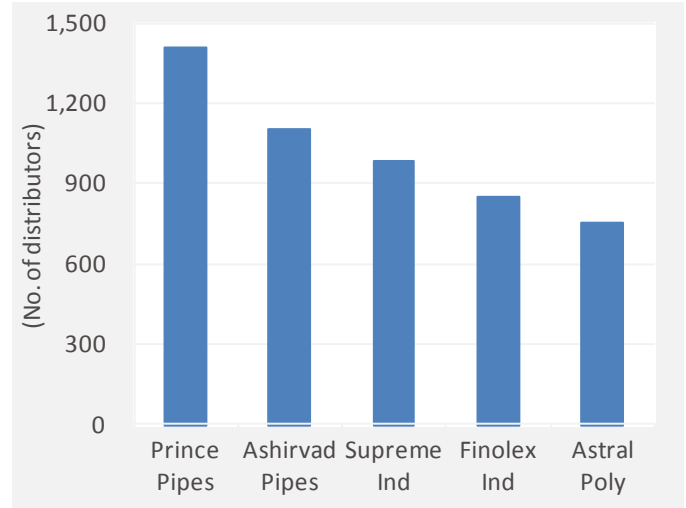
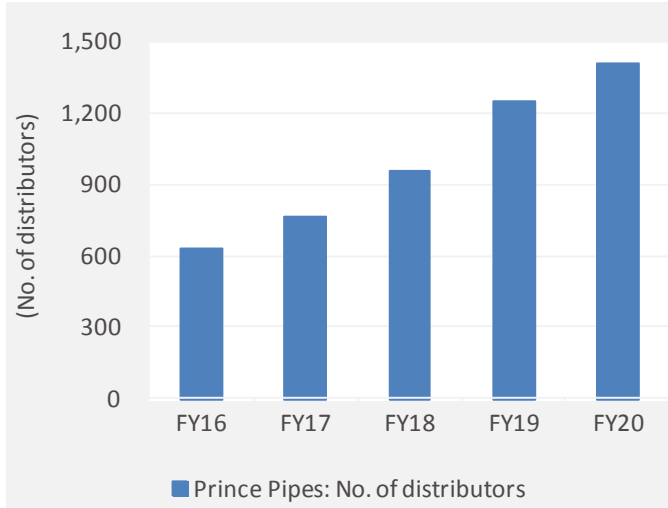
Source: Company, Edelweiss research

**Fig. 3: PPFL's wide spread manufacturing locations**



Source: Company, Edelweiss research

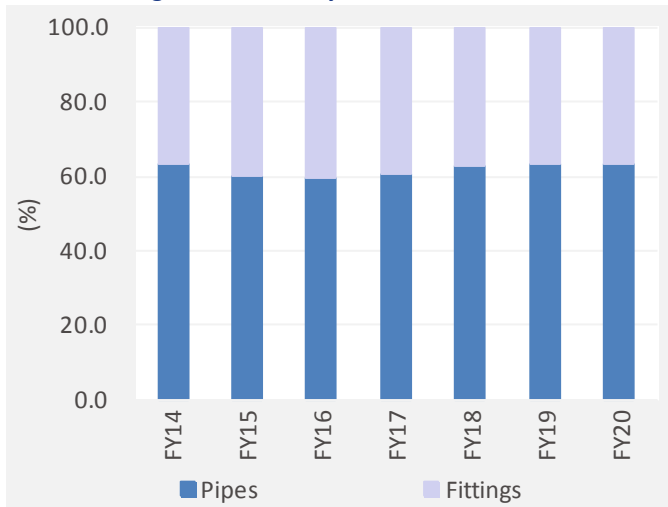
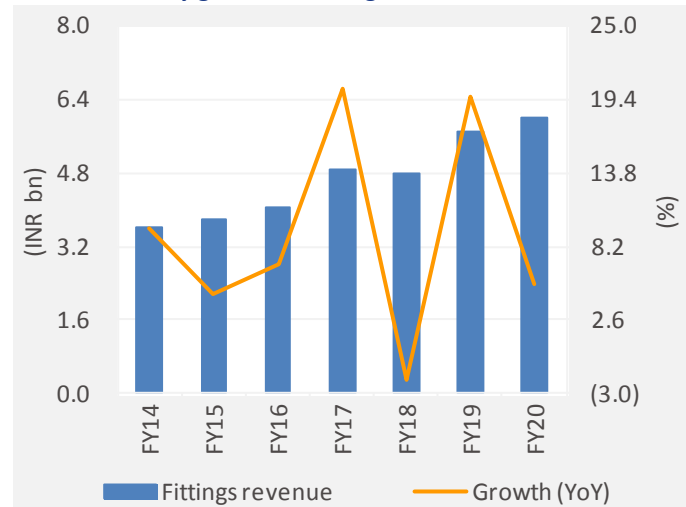


**Chart 5: Strongest distribution amongst peers**


Target to maintain its optimum and highest pipes to fittings ratio of 63:37

### Sharpening focus on maximising sales of high-margin products

PPFL has strong first-mover advantage and a resultant strong brand recall in the fittings segment. The segment typically earns higher margin due to specialised nature and precision required vis-à-vis the pipes segment, which also keeps unorganised players away from this segment. CPVC and PPR products too have higher margins than UPVC products and plumbing products also fetch higher margin than other products. Therefore, PPFL is focusing on maximising its sales in these higher-margin products.

**Chart 6: Fittings mix over the years**

**Chart 7: Healthy growth in fittings revenues**


Source: Company, Edelweiss research

Pan-India roll out of 'Prince Udaan' loyalty programme on the cards

### First-of-its kind loyalty programme

In November 2016, to differentiate its Prince Piping System brand, PPFL launched a loyalty programme 'Prince Udaan' to connect with and reward its distributors, retailers, wholesalers and plumbers. Under this programme, buyers of Prince Piping Systems products receive reward points on every purchase, which can be redeemed against gifts. This loyalty programme is currently operational in North India (except Madhya Pradesh), West India, South India and East India (only Bihar, Jharkhand and West Bengal).

### Partially addressed concerns during IPO

At the time of its IPO, PPFL faced several setbacks from investors primarily related to pledge of promoters holding, leverage at promoters' end and pending litigations over the company's investments in real estate. While PPFL has addressed most of these issues, a few are still unresolved. We believe these corrective steps will revive investors' interest.

The promoters pledge has come down to NIL

#### Nil promoter pledge

Prior to the IPO, PPFL's promoters had 35% holding pledged with KKR India for a loan of ~INR2bn, which was one of the biggest concerns amongst investors. These loans were related to early investments made in 2000s for real estate, which failed to fructify as expected. However, as promised, **promoters released the pledged on the first day of listing from IPO's proceeding.**

Unsecured debt at promoter's level has also come to NIL by March 2020.

#### Fall in unsecured personal leverage as well

Apart from loans from KKR, the promoters on a personal level had availed a few unsecured loans of INR100-150mn. However, they were not able to pay loans due to certain terms during the IPO and thus promised to pay the loans within a year of the IPO. As promised, before the end of the first year itself, the **promoters have repaid all the unsecured loans.**

The matter is pending in court and thus exact financial liability, if any, is not known

#### Litigation overhang persists

PPFL is a sleeping partner in M/s. Aditya developers (Aditya) with 20% stake. Montana Developers has filed a complaint against Aditya and its partners, including Mr. Jayant Shamji Chheda, PPFL's promoter and Managing Director, and Ms. Heena Parag Chheda, one of PPFL's promoters, in relation to a joint venture agreement (20% of Aditya's assets were being developed with Montana Developers) dated December 30, 2010, entered into between Montana and Aditya (JV agreement). The dispute is over a piece of land in Vasai and the total claim by Montana stood at INR9,046mn along with interest at 27% per annum to be paid by Aditya and its partners.

Aditya and its partners have filled a counter claim refuting the claim on the basis of a letter from Montana. However, as Mr. Jayant Shamji Chheda and Ms. Heena Parag Chheda each hold 10% share of profit and losses as partners of Aditya, the liability if any will be to the extent of 20% share of total litigation. However, since it's a JV partnership, in case of inability of other partners to meet the liability, the onus could lie on the promoters of PPFL.

Apart from reducing receivables with distributors and repaying long-term debt, PPFL is working towards changing terms of recourse option

#### Channel financing with recourse option still a concern

In order to improve its working capital cycle, PPFL shifted a few of its major distributors under channel financing with recourse option. As on March 31, 2020, the company had contingent liabilities amounting to INR853mn, including INR830mn in relation to channel finance guarantees given to banks for loans taken out by the company's distributors with recourse option. Thus, for any reasons, if these contingent liabilities materialise, it would adversely affect the company's financial condition. Going ahead, management is confident of changing the terms of recourse option.



### Use of Prince brand by certain third parties

The Prince family got restructured in early 1990s. While ownership of PPFL came to Mr. Jayant Shamji Chheda, Chairman and MD of PPFL, other group companies namely, Prince SWR, Prince Realty, Prince Multiplast and Prince Care were given to his brothers. While none of these promoters have any cross holdings in each of these group companies, another company that is in the same line of business of manufacturing and trading in PVC pipes— Prince SWR— uses the brand *Prince Platinum*, which may lead to confusion in the minds of PPFL's consumers.

Until July 2014, PPFL's business was carried on under a different logo. Prince SWR, which has Prince in its name, uses PPFL's old logo. In July 2014, PPFL changed its logo to Prince Piping Systems to further distinguish it from the other player. Our interactions with various players indicate that, akin to many other regional players who are facing challenges, Prince SWR too is having a tough time in the market.

PPFL, in September 2019, started production at its Jaipur plant with installed capacity of ~20k tonnes.

Telangana plant will help compete more effectively as currently the South market is catered to by Athal and Haridwar facilities

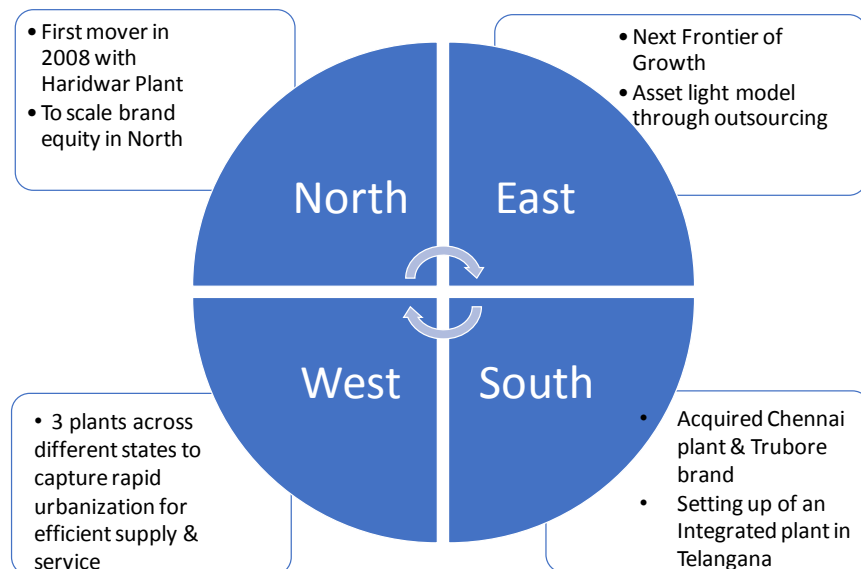
### Growth drivers in place

Capacity expansion and geographical expansion are expected to be PPFL's key growth drivers. The company is already strong in West India with three plants across different states. While the Telangana plant will help it expand reach in South market, its Jaipur plant expansion is likely to make its position stronger in the North market. Further, it will continue with the asset-light model (outsourcing) in the East—its fastest-growing

#### Jaipur plant to make its position stronger in North

Being the first mover in North India since 2008, the company has strong positioning in this market with North contributing majority of the revenue. Going ahead, newly commissioned plant at Jaipur is expected to improve service to northern markets and fortify its market share.

**Fig. 5: Uniquely catering to PAN India demand**



Source: Company, Edelweiss research

#### Telangana plant to help expand reach in South

PPFL was the first company to opt for inorganic expansion by acquiring two manufacturing plants of Fairfax-backed Chemplast Sanmar located at Kolhapur (Maharashtra) and Chennai, along with the *Trubore* brand. With *Trubore* brand, the company was able to bolster its presence in the Southern region. But now to make brand *Prince* stronger in South and East markets, PPFL is planning to set up an integrated pipes and fittings manufacturing plant at Sangareddy (Telangana) with capacity of ~50k tonnes.

**Table 4: PPFL's upcoming facilities**

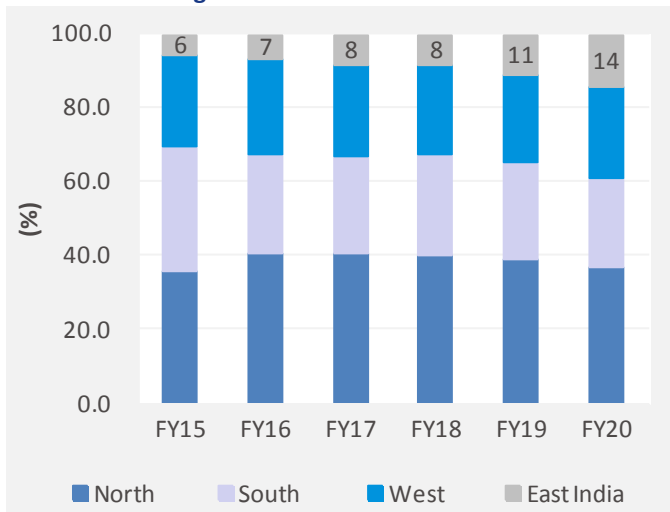
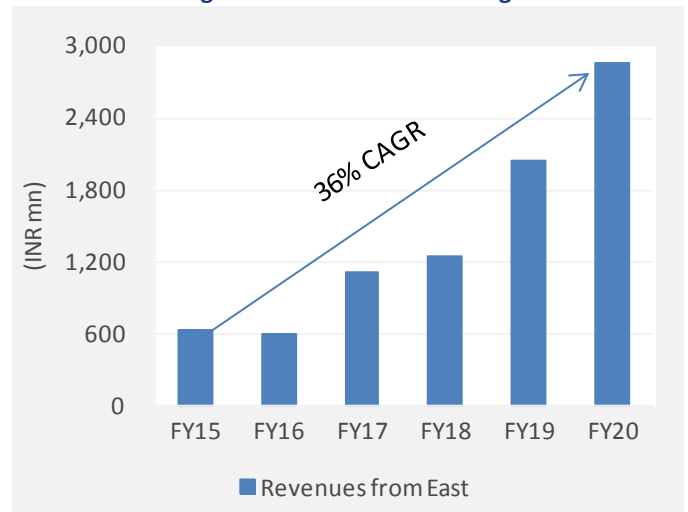
Parameter	Telangana Plant
Forecast Installed Capacity (TPA)	~51943
Machinery	58
Products	UPVC Pipe, CPVC Pipe, DWC, UPVC Fitting, CPVC Fitting
Planned Commencement of Operations	Q3FY22
Leased or Owned	Owned
Estimated Total Cost (Bn)	1.96

Source: Company, Edelweiss research

### East: Next growth frontier

To cater to the burgeoning demand in East, PPFL has opted for asset-light model wherein the company has put in place stringent quality parameters. As per the arrangement, PPFL supplies the raw material and manufacturers charge the company an agreed amount per kilo for conversion. Further, to ensure that quality standards are maintained, one of PPFL's employees is stationed at each of these contract manufacturing plants. Further, the company's outsourced plants are strategically positioned and do exclusive job work for it for entry products, while fittings and high-value products are supplied through its Haridwar plant.

PPFL has become the top 2 brand in East with revenue CAGR of 36% over FY15-20; revenue share from East has jumped to 14% in FY20 from 5.7% in FY15

**Chart 8: Increasing share of revenues from East**

**Chart 9: Increasing revenues from Eastern region**


Source: Company, Edelweiss research

Chart 10: Increasing share of revenues from outsourcing

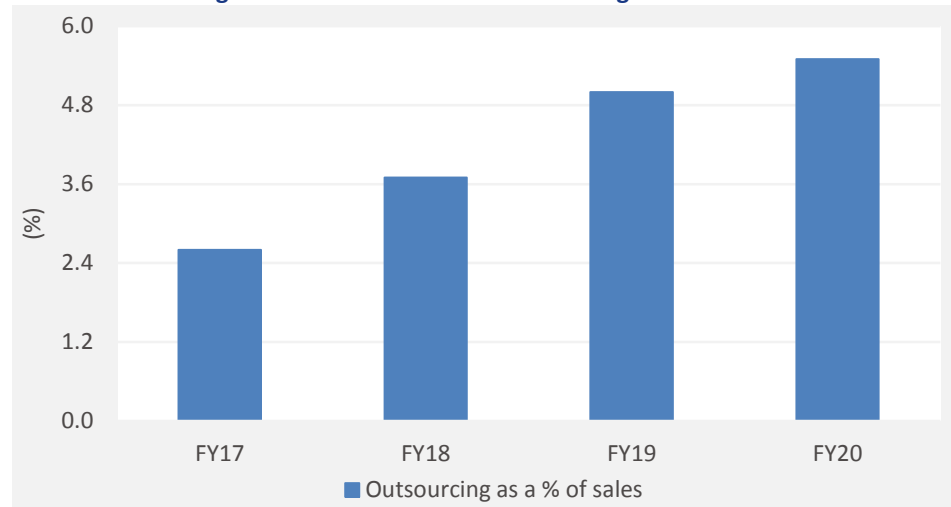


Table 5: PPFL currently outsources from above 5 contract manufacturers

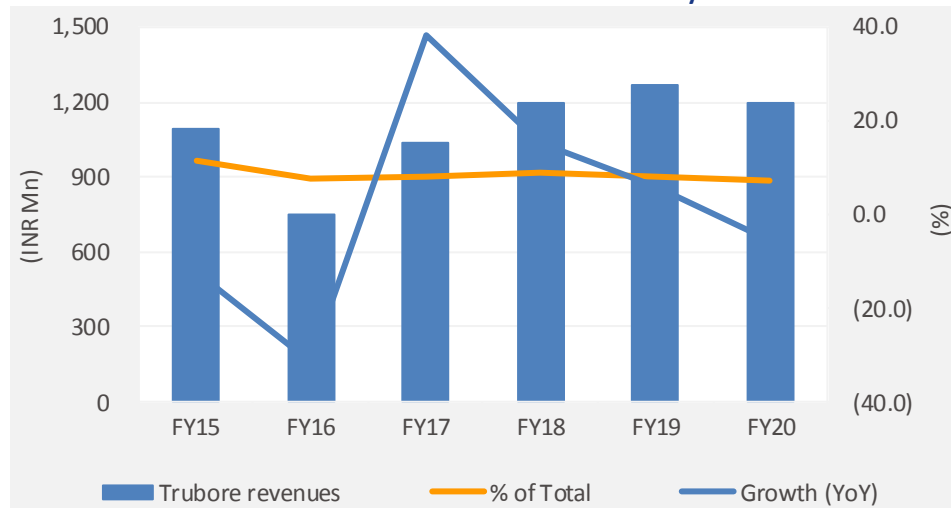
Name of the company	Geography	Product	Started In
Shree Chintamani Multilayer	Aurangabad (Maharashtra)	UPVC pipes	Jul-14
Shree Tel-Fab Industries Pvt. Ltd	Hajipur, Vaishali District (Bihar)	UPVC pipes	Sep-14
Swetha PVC Industries	Guntur (Andhra Pradesh)	UPVC pipes	Jul-19
Ohm Pipes	Balasore (Odisha)	UPVC pipes	Oct-19
Shree Prabhu Petrochemical's Pvt. Ltd	Aurangabad (Maharashtra)	DWC pipes	Jun-18

Plans to expand Trubore's product range and distribution reach over the next three-four years

### Plans underway to make *Trubore* a pan-India brand

PPFL acquired the *Trubore* brand in October 2012. It is a well-entrenched premium brand in the Tamil Nadu market. Its sales have been slower than expected primarily due to limited product and market presence. However, PPFL is planning to increase sales of this brand over the next three-four years by increasing its product portfolio (currently dominated by PVC pipes) and distribution reach, making *Trubore* a pan-India brand.

Chart 11: Revenues from Trubore brand has increased steadily



Source: Company, Edelweiss research

DWC pipes account for mere 2-3% of total sales with majority capacity remaining idle due to delayed government spending

### Growth in DWC pipes has been slower than expected

Until Q4FY18, PPFL focused on products for application above ground, viz., plumbing, irrigation and sewage disposal. In Q4FY18, the company expanded reach of its products for application in underground drainage by entering the HDPE segment with DWC pipes by investing INR300-350mn. However, growth in the segment has not been as per expected primarily due to short-term challenges the industry is facing, including delayed government spending and extended rains.

**Table 6: Total capacity across various plants**

Year	Plant	Location	Capacity (Tonnes per annum)
Q4FY17	Owned	Haridwar	8,820
Q2FY19	Owned	Chennai	14,364
Q3FY19	Owned	Dadra	13,440
Q1FY19	Contract manufacturing	Aurangabad (Maharashtra)	5,544
<b>Total</b>			<b>42,168</b>

Source: Company, Edelweiss research

### Leveraging brand prowess to expand product offering

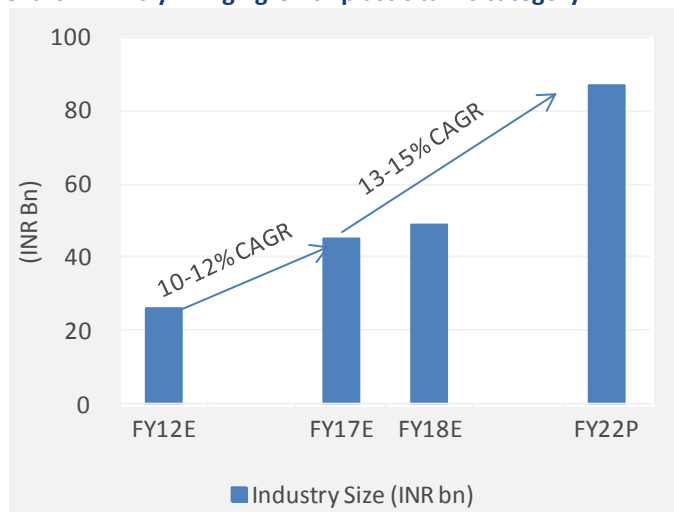
PPFL is extending its brand presence to fast growing plastic tanks segment (likely to post 13-15% CAGR over FY17-22E, as per CRISIL) to leverage its strong pan-India brand and distribution network. The company has currently made pilot launch in Gujarat and led by its multi-location plants, is likely to expand product reach pan-India.

### Leveraging experience in plastic and building material

PPFL is extending its brand presence to plastic tanks to leverage its strong pan-India brand and distribution, while remaining into existing category of building materials and plastics. CRISIL estimates the domestic water tank industry to post 13-15% CAGR over FY17-22E led by growing necessity of water storage owing to irregularity in supply and increase in momentum in the construction of affordable housing.

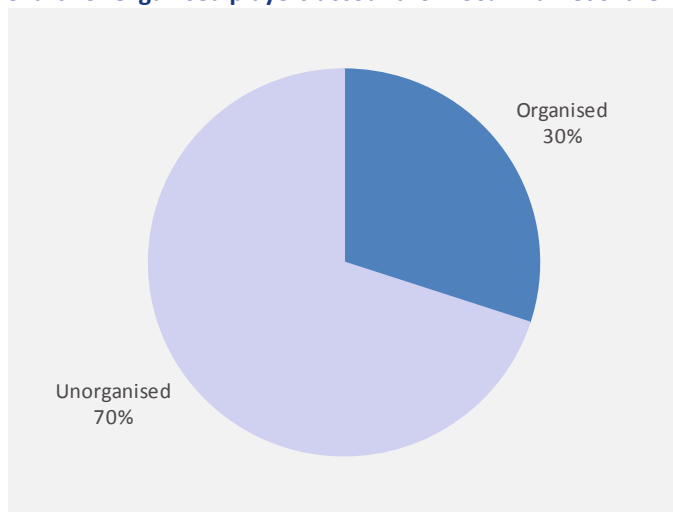
CRISIL Research estimates domestic plastic water tanks industry to post 13-15% CAGR over FY17-22 to INR87bn by FY22E

Chart 12: Entry in high growth plastic tanks category



E: Estimated; P: Projected

Chart 13: Organised players account for ~30% market share



Source: CRISIL Research, Vectus DRHP

The plastic water tank market is highly fragmented; unorganised players dominate with 70% share

Plastic tanks segment's share in total revenue is likely to be less than 5% in the near term

### Multi-location plant to help pan-India presence

Due to the voluminous size of tanks, transportation cost is high and thus a large number of fragmented regional players dominate the industry. With PPFL's multi-location plants, the company is likely to benefit from its rising pan-India presence. For now, it has made a pilot launch in Gujarat and is supplying the market from its Dadra unit and is gradually likely to expand the product reach pan-India.

### Equipped with financial heft to tackle challenges

The plastic water tank market was primarily dominated by two pan-India companies Sintex Tanks and Vectus Industries. However, given the challenging phase Sintex is going through, there is huge vacuum created in the market currently. Thus, PPFL has decided to enter the segment with nominal capex and gradual pan-India ramp up. Further, the company's focus will be largely on quality products versus market share gain in the initial years.



## Financial Outlook

We estimate PPFL to post revenue, EBITDA and PAT growth of 27%, 39% and 61%, respectively, in FY22. This will be fuelled by: a) healthy volume growth driven by capacity additions (in South and North); b) asset-light business model in East; and c) entry in the rapidly-growing plastic tanks segment. Further, we expect working capital improvement to sustain with healthy free cash flow generation and debt reduction.

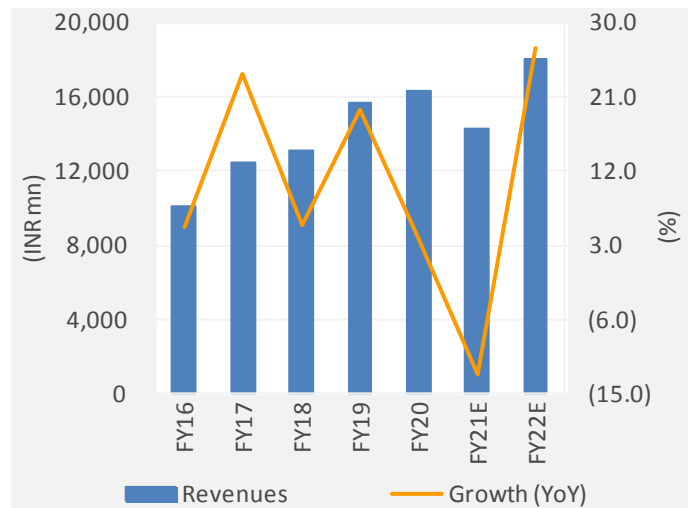
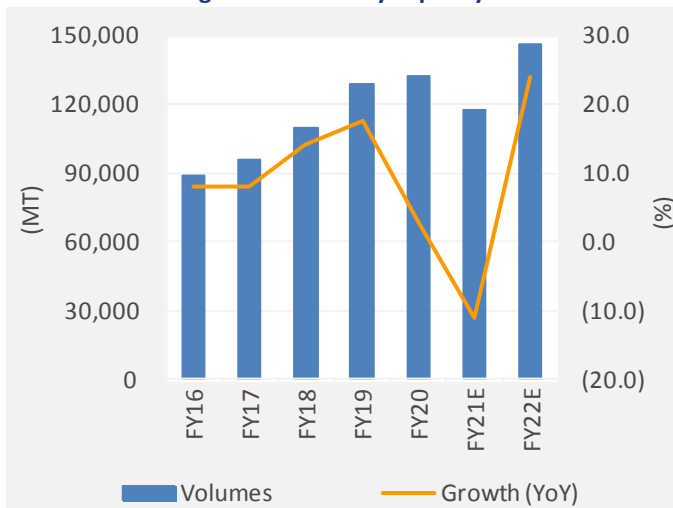
### Capacity addition to drive growth

Capacity additions in North (Jaipur plant in September 2019) and South (Telangana plant by Q3FY22) will drive growth

PPFL's revenue posted 13% CAGR over FY16-20 despite weak growth in FY20 at 4% (3% YoY volume growth) impacted by Covid-19. In the first 11 months of FY20, revenues and volumes of the company increased 13% and 11% YoY respectively. Going ahead, capacity additions-Jaipur plant in Septv2019 and Telangana plant by Q3FY22 to drive growth. However, in the near term, growth is likely to be impacted by muted performance in FY21 with 13% revenue dip due to complete lockdown in April and gradual recovery thereafter.

We expect strong recovery in coming quarters with robust demand from rural and semi-urban areas with healthy growth kicking in from Q4FY21 itself. Consequently, we estimate FY22 revenue to jump 27% YoY led by low base, continued healthy demand and accelerated consolidation.

Chart 14: Volume growth driven by capacity addition to drive revenues ahead



Source: Company, Edelweiss research

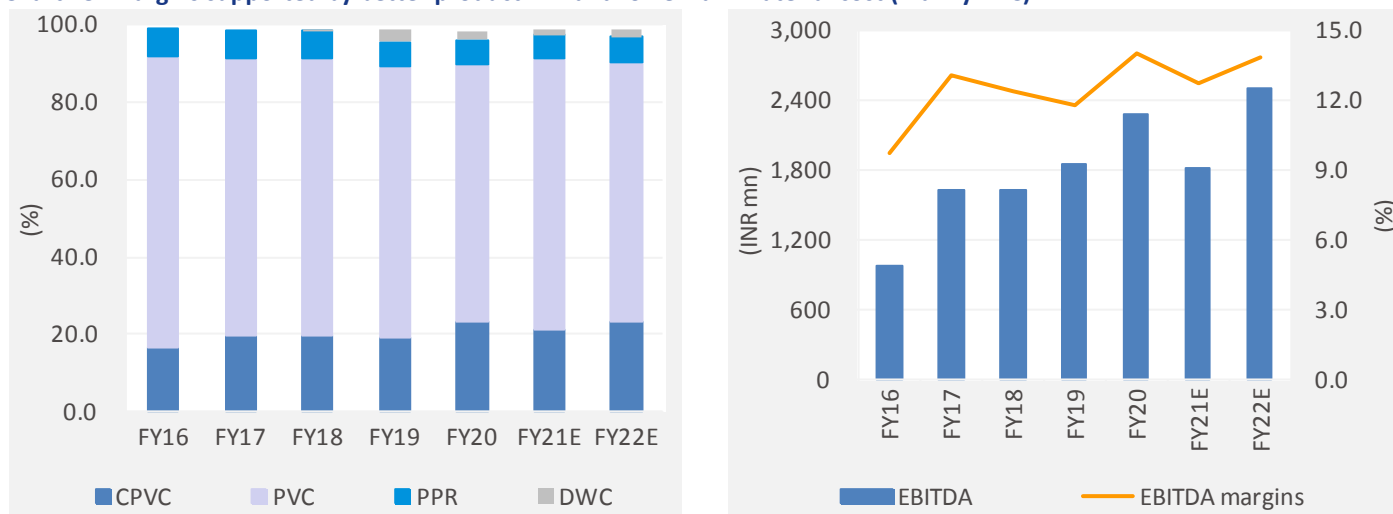
### Raw material cost reduction and improved product mix to boost margin

We estimate EBITDA CAGR of 5% over FY20-22 (FY21E down by ~21% with FY22 EBITDA up ~38% on low base)

PPFL's gross and EBITDA margins jumped 285bps and 216bps YoY to 31% and 14%, respectively, in FY20 driven by a correction in raw material prices without a corresponding correction in product prices and improvement in product mix. Further, given expectation of PVC (key raw material) prices remaining low, we expect gross margin to stay healthy. That said, negative operating leverage and higher share of agri pipes in FY21 are likely to impact margin—at 12.7% with improvement to 13.8% yet again in FY22.

## Plastic Pipes and Fittings

**Chart 15: Margins supported by better product mix and lower raw material cost (mainly PVC)**



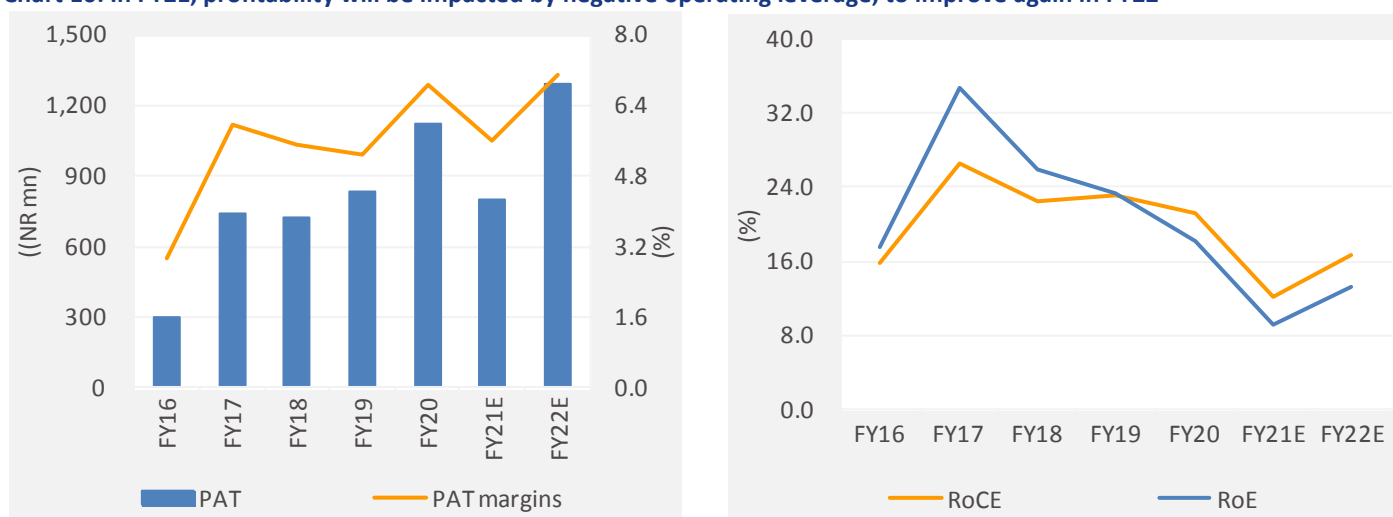
Source: Company, Edelweiss research

We estimate PAT CAGR of 7% over FY20–22 (FY21E down by ~29% and FY22E PAT up by 61% on low base)

### Covid-19 takes a toll on profitability

PPFL reported healthy 35% YoY growth in PAT supported by CPVC inventory benefits as well as lower tax rate. However, in FY21, PAT is likely to plunge 29% impacted by negative operating leverage, primarily in Q1FY21, as fixed cost will remain almost same (with no salary cut industry wide in plastic pipes industry). In FY22, PAT is likely to bounce back and jump 61% led by 38% YoY increase in EBITDA. Consequently, in line with change in profitability, PPFL is likely to report ROCE of 12.2% in FY21E and 17.0% in FY22E from 21.2% in FY20.

**Chart 16: In FY21, profitability will be impacted by negative operating leverage; to improve again in FY22**



Source: Company, Edelweiss research

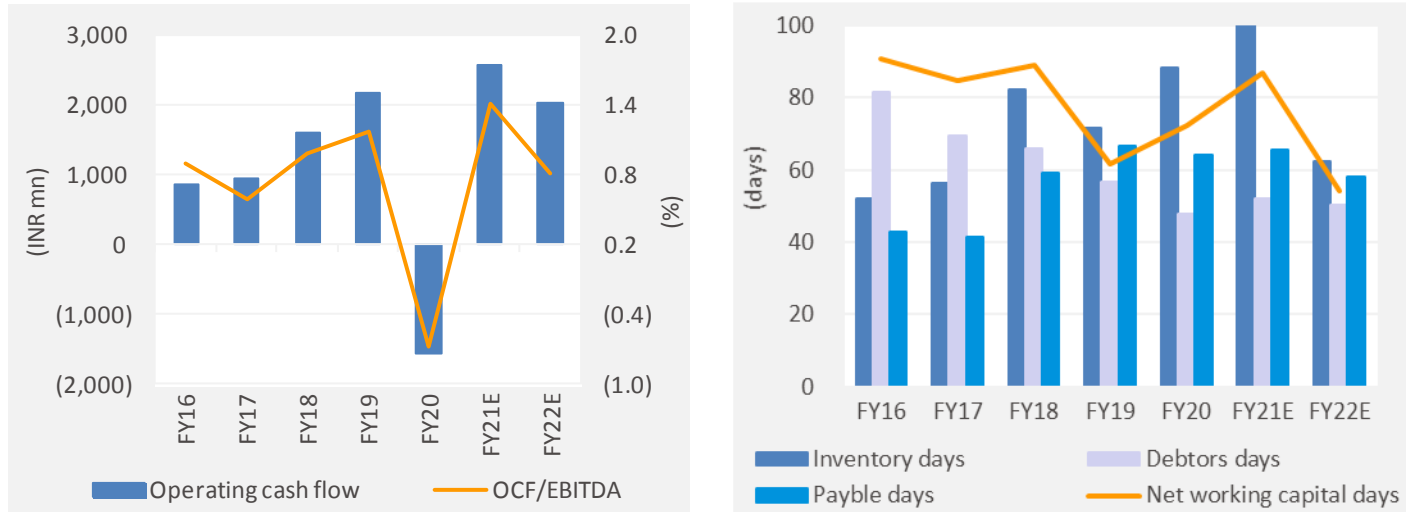
Improvement in receivable days is led by strict credit policy, focus on sustainable growth, supported by channel financing and better bargaining power for credit terms

### Working capital days to continue to improve

Over the past five-six years, PPFL's working capital days have improved substantially from peak of 109 days in FY15 to 62 in FY19. This has been primarily led by decline in receivable days and increase in payable days (due to raw material procurement from China/Korea with

higher credit period (120-150 days). However, in FY20, working capital days were impacted by higher inventory (absence of sales in March and April due to covid-19). We expect working capital days to revert to original level as improvement in receivables (led by tighter control on debtors) will be partially offset by lower credit days (change in CPVC raw material sourcing)

**Chart 17: FY20 operating cash flow impacted by sharp deterioration in working capital days**



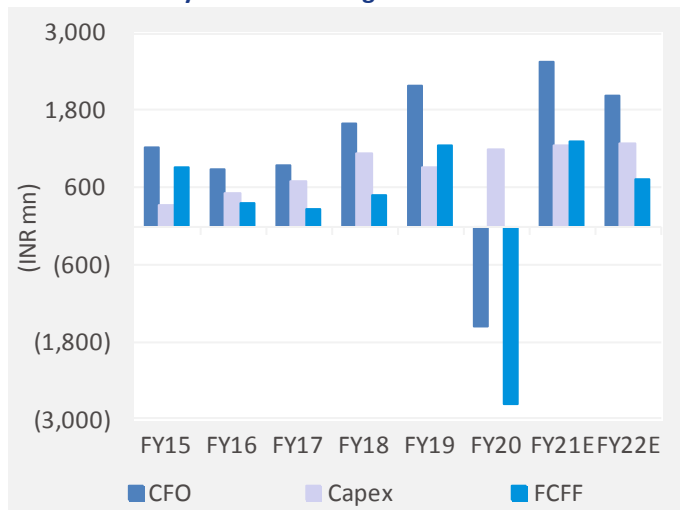
Source: Company, Edelweiss research

PPFL turned net cash positive in FY20 and reduced its debt by INR950mn led by proceeds from its recent IPO and internal accruals

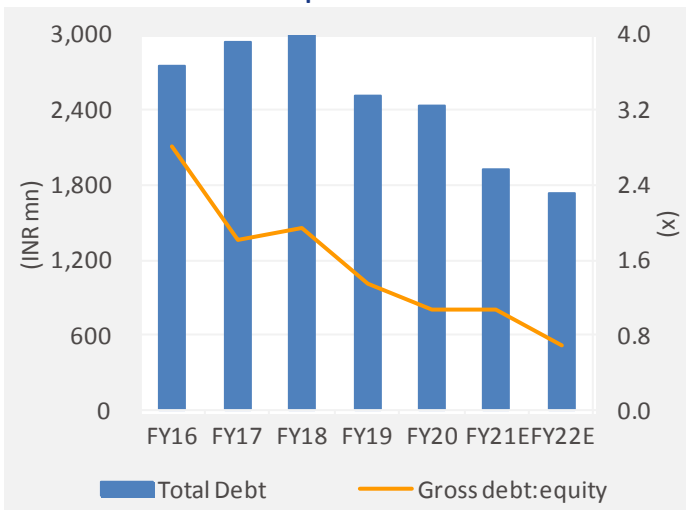
#### Free cash flow positive with significant debt reduction

PPFL turned free cash flow positive during FY15-19 on healthy operating cash flow led by increase in profitability (driven by gross and EBITDA margin expansion) and reduction in working capital requirement, which was impacted in FY20 due to covid-19-related lockdown in March. In FY20, the company also reduced its debt by INR950mn not only by IPO money, but also via internal accruals. According to our forecasts, PPFL will generate INR2bn FCFF over FY21-22, which will be largely used for debt reduction and capex.

**Chart 18: Healthy free cash flow generation**



**Chart 19: With debt also expected to fall**



Source: Company, Edelweiss research

### Valuations

- Despite PPFL's successful transition from a tier-II player to a well recognised fifth-largest national brands in pipes & fittings space, it's valuations are hugely discounted compared to peers.
- Given consolidation in the industry and PPFL's sustained market share gains along with significant ramp up in FCF and reduction in D/E, we believe the valuation gap will narrow significantly. With EPS CAGR of 7% in FY20-22E, we value the stock at 24x FY22E PE (~40 % discount to industry average and ~20% discount to industry leader SIL) and initiate with **'BUY'**.

### Strong compounding play in plastic pipes industry

- The pipes industry is going through structural changes—GST and covid-19-triggered shift of market share from unorganised to organised players and challenges in raw material sourcing faced by unorganised players.
- Further, the company is well-positioned to reap the benefit of anticipated demand upswing led by shift from unorganised to organised players, strong demand from irrigation sector and government's focus on housing.
- Riding strong branding, widening distribution reach, volume growth driven by capacity additions and launch of fast-growing plastic tanks segment, we estimate PPFL to post revenue, EBITDA and PAT growth of 27%, 39% and 61%, respectively, in FY22 (after declining 13%, 21% and 27%, respectively, in FY21 due to covid-19).
- Factoring the same, we assign 24x to FY22E earnings, yielding target price of INR281. We initiate coverage with **'BUY'** recommendation.

Chart 20: Enough scope for re-rating



Source: Company, Edelweiss research

## Key Risks

**Sustained slowdown in residential and non-residential construction activity in India:** Demand for plumbing (42% of FY19 revenue) and sewage (27% of FY19 revenue) products is closely tied with residential and non-residential construction in India. Any reduction in activity in these markets could adversely impact the company's business.

**Slowdown in agriculture sector:** PPFL's products are used in agriculture sector, accounting for 34% of the company's total sales in FY20 (40-45% in Q1FY20). Demand for these products is affected by the level of growth in the agriculture sector in India, which in turn is impacted by the monsoon. A good monsoon season typically bodes well for farmers' incomes and the agriculture sector, and in turn for the company's business. Similarly, any reduction in activity in the agriculture sector could have material adverse impact on the company's business.

**Raw material prices:** PPFL's primary raw materials are UPVC, CPVC and PPR resins, which are derived from crude oil. Crude oil prices are volatile and any increase in the price of crude oil would lead to increase in the price of raw materials required to manufacture the company's products. It has not entered into any long-term supply contracts and, therefore, is subject to the risk of increase in its raw material costs.

**INR depreciation:** While PPFL's revenues are in INR, since the cost of imported raw material and plant & machinery is denominated in foreign currency (primarily USD), any depreciation in INR vis-a-vis these foreign currencies could adversely affect the company's financial condition and in turn operations.

## Company Description

PPFL is one of the leading polymer pipes and fittings manufacturers in India in terms of the number of distributors. The company markets its products under two brand names—*Prince Piping Systems* and *Trubore*. It has more than 30 years of experience in manufacturing polymer pipes and 20 plus years of experience in manufacturing fittings.

Currently, PPFL manufactures polymer pipes and fittings using four different polymers—UPVC, CPVC, PPR and PP. As at March 31, 2020, the company had a product range of more than 7,167 SKUs used for varied applications in plumbing, irrigation and sewage disposal. It currently sells products to distributors, who then resell them to wholesalers, retailers and consumers. As at March 31, 2020, it had 1,408 distributors spread across India.

**Table 7: PPFL's manufacturing locations**

	Haridwar Plant	Dadra Plant	Chennai Plant	Kolhapur Plant	Athal Plant	Rajasthan Plant
Installed capacity (tonnes) <sup>(1)</sup>	77,588	59,232	62,143	20,045	15,982	6,221
Year of establishment	2008	2000	2012 <sup>(2)</sup>	2012 <sup>(2)</sup>	1995	2019
Products	Pipes and fittings	Pipes	Pipes	Pipes	Fittings	Pipes
Land area on which plant is located (m2)	67,630	71,569	35,402	14,300	19,905	68,796
Owned/Leased	Owned	Owned	Owned	Owned	Owned	Owned

Source: Company, Edelweiss research

1. As on October 31, 2019. The production capacity varies with changes in size, mould change and pressure requirements.

2. Acquired this plant in 2012.

## History

**Table 8: Major events and milestones**

Year	Particulars
1982	Mr. Jayant Chheda ventured in PVC Products business
1987	Incorporated as a private limited company
1995	Set up a large scale plastic injection moulding and extrusion unit in Athal, Dadra and Nagar Haveli
2000	New plant set up at Dadra for pipe manufacturing
2005	Achieved INR 1bn turnover
2008	New plant set up at Haridwar for manufacturing pipes and pipe fittings
2012	Acquisition of plants in Chennai and Kolhapur of Trubore Piping System, a division of Chemplat Sanmar Limited
2013	Merger of Kenson Manufacture Private Limited into our Company
2014	Crossed turnover of INR 10bn
2017	Conversion from a private limited company to a public limited company
2018	Appointed Mr. Akshay Kumar as Brand Ambassador
2019	Set up new plant at Jaipur for pipe manufacturing
2020	Entered plastic water tanks segment - STOREFIT

Source: Company, Edelweiss research



## Management Overview

**Table 9: Key management personnel**

Name	Profile
Mr. Jayant Shamji Chheda, 71 Chairman, Managing Director and Promoter	He has been associated with our Company since incorporation as a Director. He has passed the Senior Secondary Certificate Examination. He has over three decades of experience in the plastic industry. He was awarded the 'Lifetime Achievement Award' at the Vinyl India Conference, 2014.
Mr. Parag Jayant Chheda, 46 Executive Director and Promoter	He has been associated with our Company since April 27, 1996 as a Director. He holds an associate degree in business administration from Oakland Community College. He has over 21 years of experience in the piping industry. He was awarded the 'Inspiring Business Leader Award' at the Economic Times Summit, 2016 for the 'Business and Industry' sector
Mr. Vipul Jayant Chheda, 42 Executive Director and Promoter	He has been associated with our Company since March 11, 1997 as a 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.
Mrs. Heena Parag Chheda, 46 Executive Director and Promoter	She has been associated with Prince Marketing, a member of the Promoter Group, since 2004 and Prince pipes as Vice President - Finance And Accounts since 2009. She has been our Director since October 1, 2016. She holds a bachelor's degree in commerce from the University of Bombay. She has over 14 years of experience in the piping industry.
Mr. Shyam Kishanchand Sharda, 46 Chief Financial Officer	He is company's CFO since February 1, 2016 and has a bachelor's degree in commerce and is also an associate of the Institute of Chartered Accountants of India. He has previously worked with S. Kumar Nationwide Ltd and United Phosphorous Ltd. He has approximately 20 years of experience in the field of finance, accounts and taxation.
Mr. Shailesh Kanji Bhaskar, 32 Company Secretary	He is company's CS since April 24, 2017. He has a bachelor's degree in law and commerce and is also an associate member of the Institute of Company Secretaries of India. He has previously worked with Bisleri International Pvt Ltd and Lykis Ltd. He has ~11 years of experience.

Source: Company, Edelweiss research

## Financial Statements

### Key assumptions

Year to March	FY19	FY20	FY21E	FY22E
<b>Macro</b>				
GDP(Y-o-Y %)	6.1	4.8	(6.0)	7.0
Inflation (Avg)	3.4	4.3	5.0	3.5
Repo rate (exit rate)	6.3	4.4	3.5	3.5
USD/INR (Avg)	70.0	70.7	75.0	73.0
<b>Company</b>				
<b>Sales growth (%)</b>				
Volume Growth (%)	17.8	2.9	(11.0)	24.1
Realisation Growth (%)	2.8	2.5	(2.0)	2.3
<b>Financial Assumptions</b>				
Gross margins	28.3	31.1	30.0	30.5
Dep. as % of avg. gross BNock	7.1	6.4	7.0	7.1
Int. rate as % of total debt	13	13	12	12
Tax rate as % of PBT	25	25	25	25
Capex (INR mn)	918	1207	1250	1300
Net borrowing (INR mn)	2291	(138)	(1194)	(1705)

### Income statement

	(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E
Net revenues	15,719	16,357	14,269	18,113
Raw material costs	11,274	11,264	9,989	12,589
Employee Benefits Expense	783	902	938	1,031
Other expenses	1,803	1,903	1,525	1,988
Total expenses	13,860	14,069	12,452	15,608
<b>EBITDA</b>	<b>1,859</b>	<b>2,288</b>	<b>1,818</b>	<b>2,505</b>
Depreciation & amortization	452	520	611	710
EBIT	1,407	1,768	1,207	1,795
Less: Interest Expense	364	332	262	220
Add: Other income	71	69	125	144
Add: Exceptional items	0	0	0	0
<b>Profit Before Tax</b>	<b>1,115</b>	<b>1,506</b>	<b>1,070</b>	<b>1,719</b>
Less: Provision for Tax	281	381	268	430
Reported Profit	833	1,125	803	1,289
Less: Excep. Items (Net of Tax)	0	0	0	0
<b>Adjusted Profit</b>	<b>833</b>	<b>1,125</b>	<b>803</b>	<b>1,289</b>
No. of Sha. outstanding (mn)	110	110	110	110
Adjusted Basic EPS	7.6	10.2	7.3	11.7
No. of dil. Sha. outstand. (mn)	110	110	110	110
Adjusted Diluted EPS	7.6	10.2	7.3	11.7
Adjusted Cash EPS	12	15	13	18

### Common size metrics - as % of revenues

Year to March	FY19	FY20	FY21E	FY22E
Materials costs	71.7	68.9	70.0	69.5
Staff costs	5.0	5.5	6.6	5.7
S G & A expenses	11.5	11.6	10.7	11.0
Depreciation	2.9	3.2	4.3	3.9
Interest Expense	2.3	2.0	1.8	1.2
EBITDA margins	11.8	14.0	12.7	13.8
Net Profit margins	5.3	6.9	5.6	7.1

### Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	19.5	4.1	(12.8)	26.9
EBITDA	13.8	23.1	(20.5)	37.8
PBT	17.1	35.1	(28.9)	60.7
Adjusted Profit	14.5	35.0	(28.7)	60.7
EPS	(6.3)	35.0	(28.7)	60.7

Balance sheet				
(INR mn)				
As on 31st March	FY19	FY20	FY21E	FY22E
Share capital	900	1,100	1,100	1,100
Other Equity	3,089	7,277	8,079	9,368
Total shareholders funds	3,989	8,377	9,179	10,469
Long term Borrowings	1,058	395	395	195
Short term Borrowings	1,457	2,038	1,538	1,538
Total Borrowings	2,514	2,433	1,933	1,733
Long Term Liabilities & Prov.	238	287	287	287
Deferred Tax Liability (net)	149	133	133	132
<b>Sources of funds</b>	<b>6,891</b>	<b>11,229</b>	<b>11,533</b>	<b>12,621</b>
Net Block	3,595	4,856	5,495	6,085
Capital work in progress	615	75	75	75
Intangible Assets	39	30	30	30
Total Fixed Assets	4,249	4,961	5,600	6,190
Non current investments	8	6	6	6
Cash & bank balances	223	2,570	3,127	3,438
Inventories	2,011	3,445	2,052	2,242
Sundry Debtors	2,504	1,797	2,267	2,729
Loans & Advances	6	85	85	85
Other Current Assets	1,339	1,237	1,237	1,237
Total Current Assets (Ex Cash)	5,859	6,564	5,642	6,293
Trade payable	2,152	1,808	1,779	2,242
Other Current Liab. & ST Prov.	1,296	1,065	1,065	1,065
Total Current Liab. & Provis.	3,447	2,873	2,844	3,307
Net Current Assets (ex cash)	2,412	3,692	2,798	2,987
<b>Uses of funds</b>	<b>6,891</b>	<b>11,229</b>	<b>11,532</b>	<b>12,621</b>
Book value per share (INR)	36	76	83	95

#### Free cash flow

Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	833	1,125	803	1,289
Add: Depreciation	452	520	611	710
Interest (Net of Tax)	272	248	196	165
Others	423	(3,714)	1,458	(134)
Less: Changes in WC	(206)	(275)	499	(1)
Operating cash flow	2,186	(1,547)	2,569	2,031
Less: Capex	918	1,207	1,250	1,300
<b>Free cash flow</b>	<b>1,268</b>	<b>(2,753)</b>	<b>1,319</b>	<b>731</b>

#### Cash flow statement

Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	2,186	(1,547)	2,569	2,031
Investments cashflow	(1,051)	(1,107)	(1,250)	(1,300)
Financing cash flow	(1,049)	2,566	(762)	(420)
Net cash Flow	86	(88)	557	311
Capex	(918)	(1,207)	(1,250)	(1,300)

#### Profitability & liquidity ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	23.3	18.2	9.1	13.1
ROCE (%)	23.0	21.2	12.2	16.6
Inventory Days	72	88	100	62
Debtors Days	57	48	52	50
Payable Days	67	64	66	58
Cash conversion cycle (days)	62	72	87	54
Current Ratio	1.8	3.2	3.1	2.9
Gross Debt/EBITDA	1.4	1.1	1.1	0.7
Gross Debt/Equity	0.6	0.3	0.2	0.2
Net Debt/Equity	0.6	(0.0)	(0.1)	(0.2)
Interest Coverage Ratio	3.9	5.3	4.6	8.2

#### Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total asset turnover(x)	2.3	1.8	1.3	1.5
Fixed asset turnover(x)	4.5	3.8	2.7	3.1
Equity turnover(x)	4.4	2.6	1.6	1.8

#### Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adjusted Diluted EPS (INR)	7.6	10.2	7.3	11.7
Y-o-Y growth (%)	(6.3)	35.0	(28.7)	60.7
Adjusted Cash EPS (INR)	11.7	14.9	12.8	18.2
Diluted P/E (x)	28.6	21.2	29.7	18.5
Price/BV (x)	6.0	2.9	2.6	2.3
EV/Sales (x)	1.7	1.5	1.6	1.2
EV/EBITDA (x)	14.1	10.4	12.5	8.8
Dividend yield (%)	-	-	-	-

## Additional data

### Directors Data

Mr. Jayant S. Chheda	Founder, Chairman and MD	Mr. Parag J. Chheda	Executive Director
Mr. Vipul J. Chheda	Executive Director	Mr. Rajesh R. Pai	Nominee Director
Mr. Ramesh Chandak	Independent Director	Mr. Mohinder Pal Bansal	Independent Director
Mrs. Uma Mandavgane	Independent Director	Mr. Dilip Deshpande	Additional Independent Director
Mr. Rajendra Gogri	Additional Independent Director	Mr. Satish Chavva	Additional Nominee Director

Auditors - Khimji Kunverji & Co LLP

### Holding – Top10

	Perc. Holding		Perc. Holding
Mirae Asset Global Investments Co	5.50	Aditya Birla Sun Life AMC	2.09
IDFC AMC	1.42	ICICI Pru AMC	1.16
Tata AMC	1.05	Invesco Asset Management	0.68
HDFC AMC	0.63	Government Pension Fund	1.63
Norges Bank	1.48	Vanguard Group	0.96

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
14-Aug-20	Prince Pipes And Fittings Limited	Buy	3,00,000

*\*in last one year*