CRISIL Ratings

Rating Rationale

February 20, 2024 | Mumbai

Prince Pipes and Fittings Limited

Ratings reaffirmed at 'CRISIL A+/Stable/CRISIL A1+'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.768 Crore (Enhanced from Rs.668 Crore)**
Long Term Rating	**CRISIL A+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Prince Pipes and Fittings Limited (PPFL) at 'CRISIL A+/Stable/CRISIL A1+'

PPFL revenues have grown to Rs. 2711 crores in fiscal 2023 from Rs 2657 crores in fiscal 2022 and it has achieved revenues of Rs. 1829 crore in first 9 months of fiscal 2024.The overall business profile remains supported by the strong performance in the pipe and fittings segment. Continued ramp up in the diversified business segments like bath ware leading to significant contribution to overall operating profits and return on capital employed should further improve the business risk profile of the company.

The financial risk profile of the PPFL is also expected to improve driven by strong net worth, improving capital structure and adequate debt protection metrics. Strong net worth of Rs.1358 crore as on March 31, 2023 coupled with reduced reliance on external debt for working capital requirement and limited debt funded capex over the medium term will lead to improvement of the capital structure. Debt levels have been reduced to Rs. 55 crores as on Sept 30, 2023, as compared to Rs. 58 crores as on March 31, 2023 where in it was at Rs.150 Crores as on March 31, 2022. This has led to healthy gearing of 0.04 times as on Sept 30,2023 and is expected to remain in the similar range as on March 2024. Further the PPFL has healthy unencumbered cash and cash equivalents and investments of Rs 133 crore as on September 30, 2023 and bank balance of Rs 99.25 Crs**.** Liquidity is expected to remain strong, backed by strong cash flows, low utilization of fund based working capital limits and healthy cash and cash equivalents which are expected to remain in the business 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, supported by market position in the domestic plastic pipe industry and diverse product portfolio:** The PPFL is one of the largest players in domestic plastic pipe industry business with current capacities of 338959 MTPA. It has a track record of over three decades and demonstrated technical capability in healthy ramp up of operations. The PPFL 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 aiding company to grow its market position further. Furthermore, limited competition due to large capital requirement, and necessity to have well mix of product offerings, bolster the business risk profile. Future performance will be supported by additional revenue from Bath ware segment, improving domestic demand offering healthy revenue visibility. Further ramping up of these diversified business segments leading to significant contribution to overall operating profits should further improve the business risk profile of the PPFL and would remain a key monitorable over the medium term.

- **Geographically diverse capacities and presence:** The PPFL presence is diversified with facilities in India which enables it to cater to geographically diverse customers and guard against economic downturns in specific regions. The geographically diversified presence mitigates the concentration risk. The company also has the flexibility to manufacture pipes at any of its facilities as all units have necessary certifications and accreditations, which lends support to overall operations.

- **Strong financial risk profile and ample liquidity:** Networth was healthy at Rs. 1448 crores as on September 2023 (Rs 1358 crore as on March 31, 2023), with gearing comfortable at 0.04 time as on September 30, 2023 .The total outside liabilities to adjusted networth (TOL/ANW) ratio though had decreased to 0.36 time as on March 31, 2023, and it is expected to improve over the medium term driven by steady accretion to reserves, repayment of loans and moderate reliance on external debt for working capital and capex. Cash and cash equivalents of Rs 99 crore as on September 30, 2023, provide cushion to overall liquidity. Adjusting for such surplus, net gearing will further reduce. Interest coverage ratio has improved to 57.20 times in H1FY24 from 21 times in fiscal 2023 driven by improved profitability and moderate leverage. It is expected to remain healthy over the medium term.

Weaknesses:

- **Susceptibility to fluctuations in raw material prices and forex rates** :PPFL is susceptible to volatility in the prices of key raw material, PVC, which is a crude oil derivative. Any significant fluctuations in forex rates may impact profitability, which is also vulnerable to inherent volatility in the prices of raw materials (PVC and CPVC resins) that are dictated by global crude oil prices. Over the five fiscals through 2023, the operating margin was 9-18%. In fiscal 2023, the volatility in raw material prices led to a decline in operating margin to 9.3% against 15.7% in fiscal 2022 due to reporting of inventory loss. During the 9MFY 2024, the operating margin of the PPFL was 11.77%. Furthermore, with operations commencing in bathware segment, the PPFL is well poised to sustain double-digit growth and the operating margin is expected to be 12-13% on account of stability in raw material prices and promotional expenses over the near to medium term.

- **Moderate working capital requirements:** Company's operations are moderately working capital intensive indicated by gross current asset (GCA) in the range of 120-140 days over last three fiscals ended March 31, 2023. GCA was at 139 days as on 31st March 2023, driven by debtors and inventory of 56 days and 63 days, respectively. The 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. While company is in process of gradual reduction in debtors' collection cycle it will remain monitorable.

Liquidity: Strong

Liquidity is backed by healthy cash accrual against debt obligation, moderate bank limit utilisation, controlled working capital cycle, and healthy cash and bank balance. The company had accrual of over Rs 182 crore in fiscal 2023 against total outstanding debt (including short-term and long-term debt) of around Rs 58 crore. The PPFL is likely to maintain annual accrual of over Rs 200 crore over the medium term. Average utilisation of bank limits was 24.6% during the 12 months through Dec 2023.Healthy cash accrual, financial flexibility and moderate capex should ensure strong liquidity over the medium term.

Outlook: Stable

CRISIL Ratings believes PPFL 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 remaining below 8% on sustained basis.
- 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.
- 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

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	2,710.99	2,656.91

Reported profit after tax	**Rs crore**	**121.42**	**249.40**
PAT margins	**%**	**4.48**	**9.39**
Adjusted Debt/Adjusted Net worth	**Times**	**0.04**	**0.12**
Interest coverage	**Times**	**21.29**	**30.18**

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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	234	NA	CRISIL A+/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	434	NA	CRISIL A1+
NA	Long Term Bank Facility	NA	NA	31-Dec-2028	100	NA	CRISIL A+/Stable

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	334.0	CRISIL A+/Stable		--	02-01-23	CRISIL A+/Stable	05-01-22	CRISIL A+/Stable	29-10-21	CRISIL A/Positive	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	434.0	CRISIL A1+		--	02-01-23	CRISIL A1+	05-01-22	CRISIL A1+	29-10-21	CRISIL A1	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		--		--	02-01-23	Withdrawn	05-01-22	CRISIL A1+	29-10-21	CRISIL A1	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan	**50**	**HDFC Bank Limited**	**CRISIL A+/Stable**
Cash Credit & Working Capital Demand Loan	**37**	**ICICI Bank Limited**	**CRISIL A+/Stable**
Cash Credit & Working Capital Demand Loan	**50**	**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	Standard Chartered Bank Limited	CRISIL A+/Stable
Letter of credit & Bank Guarantee	53	The Federal Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	125	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	40	DBS Bank India Limited	CRISIL A1+
Letter of credit & Bank Guarantee	38	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	50	Qatar National Bank (Q.P.S.C.)	CRISIL A1+
Letter of credit & Bank Guarantee	45	Axis Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	83	ICICI Bank Limited	CRISIL A1+
Long Term Bank Facility	100	Axis Bank Limited	CRISIL A+/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
Understanding CRISILs Ratings and Rating Scales

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