

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

July 29, 2021 | Mumbai

### Prince Pipes and Fittings Limited

*Ratings reaffirmed at 'CRISIL A / Positive / CRISIL A1'; Rated amount enhanced*

#### Rating Action

|                                  |   |
|----------------------------------|---|
| Total Bank Loan Facilities Rated | Rs.591 Crore (Enhanced from Rs.469 Crore) |
| Long Term Rating                 | CRISIL A/Positive (Reaffirmed)            |
| Short Term Rating                | CRISIL A1 (Reaffirmed)                    |

1 crore = 10 million

Refer to Annexure for Details of Instruments &amp; Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A/Positive/CRISIL A1' ratings on the bank loan facilities of Prince Pipes and Fittings Limited (PPFL).

The ratings continue to reflect improving 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:

- Improving 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 its diverse product offerings with presence in un-plasticised 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 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. 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. Network is strong at Rs 1038.4 crore and gearing is low at 0.08 time, as on 31st March 2021. Furthermore, the debt-protection metrics are healthy, with interest cover and net cash accruals to adjusted debt ratio of 17.8 times and 3.1 times, respectively, in fiscal 2021. Driven by the healthy accretion to reserves, network will continue to remain strong and gearing is expected to remain well below 0.5 times on a sustained basis over the long term.

##### 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. Debtors appear higher at end of fiscal due to higher sales in the month of March.

**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 54% over the 12 months ended Apr-2021. The cushion in bank lines will support the incremental working capital requirements. PPFL is expected to generate net cash accruals of Rs 250-350 crore per fiscal over the medium term. Cash & bank balance (along with accrued interest) stood at Rs 233.07 crore as on March 31, 2021.

**Outlook: Positive**

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

**Rating Sensitivity factors****Upward Factors**

- Timely conclusion of capital expansion at Telangana plant and ramp-up in scale of operations from the same
- Sustained revenue growth of over 12% and sustenance of healthy operating margin
- Efficient working capital management and sustenance of financial risk profile.

**Downward Factors**

- Significantly lower-than-expected revenue, with operating margin falling below 12%
- 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                 | Rs. Cr. | 221   | 113  |
| PAT margins                      | %       | 10.7  | 6.9  |
| Adjusted Debt/Adjusted Net worth | 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:**

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**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            | 204.0               | NA                | CRISIL A/Positive            |
| NA   | Letter of Credit & Bank Guarantee         | NA                | NA              | NA            | 387.0               | NA                | CRISIL A1                    |

**Annexure - Rating History for last 3 Years**

|                           |      | Current            |                   | 2021 (History) |                   | 2020     |                  | 2019 |        | 2018 |        | Start of 2018 |
|---------------------------|------|--------------------|-------------------|----------------|-------------------|----------|------------------|------|--------|------|--------|---------------|
| Instrument                | Type | Outstanding Amount | Rating            | Date           | Rating            | Date     | Rating           | Date | Rating | Date | Rating | Rating        |
| Fund Based Facilities     | LT   | 204.0              | CRISIL A/Positive | 23-07-21       | CRISIL A/Positive | 30-09-20 | CRISIL A-/Stable |      | --     |      | --     | --            |
|                           |      |                    | --                | 13-07-21       | CRISIL A/Positive |          | --               |      | --     |      | --     | --            |
| Non-Fund Based Facilities | ST   | 387.0              | CRISIL A1         | 23-07-21       | CRISIL A1         | 30-09-20 | CRISIL A2+       |      | --     |      | --     | --            |
|                           |      |                    | --                | 13-07-21       | CRISIL A1         |          | --               |      | --     |      | --     | --            |

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

| Current facilities                        |                      |                   | Previous facilities                       |                      |                   |
|---|----------------------|-------------------|---|----------------------|-------------------|
| Facility                                  | Amount<br>(Rs.Crore) | Rating            | Facility                                  | Amount<br>(Rs.Crore) | Rating            |
| Cash Credit & Working Capital Demand Loan | 204                  | CRISIL A/Positive | Cash Credit & Working Capital Demand Loan | 204                  | CRISIL A/Positive |
| Letter of credit & Bank Guarantee         | 387                  | CRISIL A1         | Letter of credit & Bank Guarantee         | 265                  | CRISIL A1         |
| <b>Total</b>                              | <b>591</b>           | <b>-</b>          | <b>Total</b>                              | <b>469</b>           | <b>-</b>          |

## Criteria Details

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| Links to related criteria  |
| <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="#">The Rating Process</a>   |
| <a href="#">Understanding CRISILs Ratings and Rating Scales</a>                    |

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