

Rating Rationale

October 29, 2021 | Mumbai

Prince Pipes and Fittings Limited

'CRISIL A1' assigned to Commercial Paper

Rating Action

Total Bank Loan Facilities Rated	Rs.591 Crore
Long Term Rating	CRISIL A/Positive (Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)
Rs.50 Crore Commercial Paper	CRISIL A1 (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A1**' rating to the commercial paper programme of Prince Pipes and Fittings Limited (PPFL) while reaffirming its ratings on the bank loan facilities at 'CRISIL A/Positive/CRISIL A1'.

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-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 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.

Performance was impacted by pandemic related disruptions in first quarter of the current fiscal. While operating income declined compared to previous quarter (Q4 FY 2021), it improved by 9.3% compared to first quarter of previous fiscal (Q1 FY 2021), with moderation in margins. However performance has improved materially since July 2021, and overall performance for the fiscal 2022 is expected to be in line with previous estimates. However, recovery in revenue and profitability shall remain a key monetorable

- 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. The company is also expected to maintain liquidity back up for the full extent of outstanding rated short term facilities.

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 (PAT)	Rs.Cr	221	113
PAT margins	%	10.7	6.9
Adjusted Debt/Adjusted Networkth	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 Assigne 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
NA	Commercial Paper	NA	NA	7-365 days	50.0	Simple	CRISIL A1

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	204.0	CRISIL A/Positive	26-10-21	CRISIL A/Positive	30-09-20	CRISIL A-/Stable		--		--	--

			--	29-07-21	CRISIL A/Positive		--		--		--	--
			--	23-07-21	CRISIL A/Positive		--		--		--	--
			--	13-07-21	CRISIL A/Positive		--		--		--	--
Non-Fund Based Facilities	ST	387.0	CRISIL A1	26-10-21	CRISIL A1	30-09-20	CRISIL A2+		--		--	--
			--	29-07-21	CRISIL A1		--		--		--	--
			--	23-07-21	CRISIL A1		--		--		--	--
			--	13-07-21	CRISIL A1		--		--		--	--
Commercial Paper	ST	50.0	CRISIL A1		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit & Working Capital Demand Loan	30	CRISIL A/Positive
Cash Credit & Working Capital Demand Loan	25	CRISIL A/Positive
Cash Credit & Working Capital Demand Loan	27	CRISIL A/Positive
Cash Credit & Working Capital Demand Loan	25	CRISIL A/Positive
Cash Credit & Working Capital Demand Loan	32	CRISIL A/Positive
Cash Credit & Working Capital Demand Loan	40	CRISIL A/Positive
Cash Credit & Working Capital Demand Loan	25	CRISIL A/Positive
Letter of credit & Bank Guarantee	2	CRISIL A1
Letter of credit & Bank Guarantee	25	CRISIL A1
Letter of credit & Bank Guarantee	45	CRISIL A1
Letter of credit & Bank Guarantee	83	CRISIL A1
Letter of credit & Bank Guarantee	40	CRISIL A1
Letter of credit & Bank Guarantee	35	CRISIL A1
Letter of credit & Bank Guarantee	35	CRISIL A1
Letter of credit & Bank Guarantee	42	CRISIL A1
Letter of credit & Bank Guarantee	22	CRISIL A1
Letter of credit & Bank Guarantee	5	CRISIL A1
Letter of credit & Bank Guarantee	10	CRISIL A1
Letter of credit & Bank Guarantee	5	CRISIL A1
Letter of credit & Bank Guarantee	38	CRISIL A1

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing 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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