

Scrip Name	Offer Size
Prince Pipes and Fittings Ltd	Offer for sale : 250cr Fresh Issue : 250 cr

Issue Highlights

Issue Opens	Wednesday, 18 th Dec 2019
Issue Closes	Friday, 20 th Dec 2019
Price Band	Rs. 177 – Rs. 178
Bid Lot	84 Shares
Face Value	Rs. 10
BRLM	JM Financial Edelweiss

Offer Break-up

Category	Allocation	Rs. In Crs.
QIB	50%	250
Non-Institutional	15%	75
Retail	35%	175
Total	100%	500

Promoters of the Company

Jayant Shamji Chheda Parag Jayant Chheda Vipul Jayant Chheda
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Company Overview

The Company was incorporated as ‘Prince Pipes and Fittings Private Limited’ on November 13, 1987, at Mumbai, Maharashtra. Prince Pipes market its products under two brand names: Prince Piping Systems; and Trubore. Due to their comprehensive product range, it is positioned as an end-to end polymer piping systems solution provider. The Company has more than 30 years’ experience in the polymer pipes segment.

The company currently manufacture polymer pipes using four different polymers: UPVC; CPVC; PPR; and HDPE, and fittings using three different polymers: UPVC; CPVC; and PPR. As at October 31, 2019, they had a product range of 7167 SKUs. Prince Pipes’ products are used for varied applications in plumbing, irrigation, and soil, waste and rain water (“SWR”) management. Company’s product range meets the requirements of both the rural and urban markets.

They have six strategically located manufacturing plants, which gives Prince Pipes a strong presence in North, West and South India. Company’s plants are located at the following locations: Athal (Union Territory of Dadra and Nagar Haveli); Dadra (Union Territory of Dadra and Nagar Haveli); Haridwar (Uttarakhand); Chennai (Tamil Nadu); Kolhapur (Maharashtra) and Jobner (Rajasthan). The total installed capacity of their six existing plants is 241,211 tonnes per annum as at October 31, 2019. It plans to expand the installed capacity at their plant in Jobner (Rajasthan) from 6221 tonnes per annum as at at October 31, 2019 to 17021 tonnes per annum by December 31, 2019 and to 20909 tonnes per annum by the end of Fiscal 2020. Prince Pipes use five contract manufacturers, of which two are in Aurangabad (Maharashtra), one is in Guntur (Andhra Pradesh), one is in Balasore (Odisha) and one is in Hajipur (Bihar). This strategy ensures proximity and closeness to its markets helping them provide their products on time in a cost efficient manner.

Source – Company DRHP

Objective of the issue:

The company will not receive any proceeds from the offer for sale and promoter selling shareholders intend to use those proceeds towards repayment of the outstanding bonds issued by Express Infra Projects LLP. One of its promoter group entities, Express Infra Projects LLP, has issued bonds aggregating up to Rs 200 crore, of which Rs 191.5 crore was outstanding as at October 2019. For securing these bonds, promoters had pledged certain equity shares aggregating 35 percent of the equity share capital of company, with IDBI Trusteeship Services, acting as a trustee on behalf of the bondholders. The company intends to utilise net proceeds from fresh issue and pre-IPO placement for repayment of certain outstanding loans, financing the project cost towards establishment of a new manufacturing facility, either set up directly or indirectly, up gradation of equipment at manufacturing facilities; and general corporate purposes.

Company Strengths

Wide distribution network and large retail touchbase:

The Pipes and fittings industry is dominated by organized players and in that space too there are 4 name which are of meaningful size. Each of these players have different business advantages and are hence able to attract demand. Finolex Industries is backward integrated and hence has an advantage of low cost. Supreme Industries has a very wide range of products and arguably the highest number of SKUs. Astral has the advantage of having a high mix of premium products. 45% of their CPVC sales are in the premium category. Prince Pipes has the largest distribution base. Prince Pipes started as a fittings player in agriculture industry. This gave them an advantage of having a vast network of ~1400 distributors which highest amongst the 4. Through these retailers they are able to have 46000+ retail touchpoints.

Brand building through major marketing initiatives:

The company plans to spend the majority of its below the line advertising budget on activities such as meetings with dealers, meetings with retailers, architects and consultants for informing them about their new products, meetings with plumbers to educate them about their products, meetings with consultants who specify brands for construction projects, giving away branded estimation/pocket pads and other branded gifts as sales promotion items, undertaking branding activities in rural areas and Tier II and Tier III towns, media event sponsorship and exhibiting their products at trade shows and exhibitions. The company also plans to increase the visibility of its Prince Piping Systems' products and brand by leveraging their celebrity brand ambassador Akshay Kumar for Prince Piping Systems through exposure across various touchpoints. This could help them gain market share over competitors which currently stands at ~5%.

Substitution and replacement demand:

Plastic pipes have several advantages over metal pipes. For instance, the raw materials used in manufacturing plastic pipes are derivatives of crude oil. Hence, prices of plastic pipes are correlated to crude oil prices. The recent fall in crude oil prices has comparatively lowered raw material prices, and, thus, plastic-pipe prices during the period. Superior real estate properties and low prices have accelerated the substitution of metal pipes by plastic pipes. The increase in the availability of raw materials (PVC, PE and PPR), following the commissioning of new petrochemical facilities in India will further support the plastic-pipes industry. Another factor driving long-term demand is the replacement of older pipes with plastic pipes.

Valuations & View

Post issue market capitalization of the company will be around ~Rs. 2000 crores. The company will be valued at 23x FY19 earnings. With Finolex Industries at 20x PE, Supreme at 33x PE and Astral at 70x PE, Prince Pipes is at the lower spectrum in terms of valuation but seems to be fairly valued. One can subscribe for listing gains and investors can wait for the price to settle post listing.

KEYNOTE

Financials

Summary Profit & Loss Statement (Rs. In crs)

Particulars	FY17	FY18	FY19	Q1 FY20
Sales	1330.0	1320.5	1571.9	379.8
Expenses	1167.4	1157.2	1386.0	327.1
Operating Profit	162.6	163.3	185.9	52.7
Other Income	2.5	6.0	7.1	0.4
Depreciation	32.8	38.1	45.2	11.8
Interest	36.4	36.1	36.4	7.4
Profit before tax	95.9	95.2	111.4	33.9
Tax	21.7	22.4	28.1	7.3
Net profit	74.2	72.8	83.3	26.6

Summary Balance Sheet (Rs. In crs)

Particulars	FY17	FY18	FY19	Q1 FY20
Equity & Liability				
Equity Share Capital	45.0	90.0	90.0	90.0
Reserves	197.5	226.6	310.8	337.8
Borrowings	137.5	188.6	147.6	138.2
Other Liabilities	380.5	474.7	492.1	448.4
Total	760.5	979.9	1040.4	1014.5
Assets				
Non-current Assets	275.1	421.2	443.9	448.6
CWIP	18.0	14.7	61.5	76.6
Investments	0.7	0.7	0.8	0.9
Other current Assets	466.6	543.2	534.2	488.3
Total	760.5	979.9	1040.4	1014.5