PRINCE® PIPING SYSTEMS

PPFL/SE/2020-2021/149 January 13, 2021

To,

BSE Limited
25th Floor, P.J Towers,
Dalal Street, Mumbai-400001

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai -400051

Scrip Code: 542907

Scrip Code: PRINCEPIPE

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR") - Credit Rating

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, we would like to inform the Exchanges that on January 12, 2021, Company has received a letter from "CARE Ratings Limited", a credit rating agency, in relation to the credit rating assigned to the below mentioned instruments of the Company amounting to Rs. 537.04 Crore.

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term bank facilities – Term Loans	30.04 (64.24)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed and outlook revised from stable
Long term bank facilities – Fund Based	190.00 (enhanced from Rs. 175.00 crore)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed and outlook revised from stable
Short term bank facilities	317.00 (enhanced from Rs. 252.00 crore)	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	**537.04 (Rs. Five Hundred Thirty-Seven Crore and Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

The Ratings Rationale of CARE Ratings Limited dated January 11, 2021 is enclosed.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For PRINCE PIPES AND FITTINGS LIMITED

SBhaskar

Shailesh Bhaskar
Company Secretary & Compliance Officer
Encl. As above

PRINCE PIPES AND FITTINGS LIMITED MUMBAI

Prince Pipes and Fittings Limited
January 11, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
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Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of Prince Pipes and Fittings Limited (PPFL) continues to favorably factor in the diversified product portfolio with strategically located manufacturing units, wide distribution network with nationwide presence. The ratings also factor in experience of the promoters and professional management team with long track record of the company's operations.
The above rating strengths are, however, tempered by project risks arising from large size planned capex, susceptibility of its operating profit margin to fluctuation associated with key raw materials and foreign exchange as the key raw materials are derivatives of crude oil. Rating also continue to factor in the PPFL's presence in highly competitive industry setup with intense competition being faced from both organized and unorganized sector.

Positive rating sensitivities

- *Improvement in scale of operations with PBILDT margin improving to 14% or above on a sustained basis*
- *Successful establishment and consequent generation of revenues and benefits from Telangana plant*

Negative rating sensitivities

- *Decline in revenue with PBILDT margin declining to 10% on a sustainable basis*
- *Deterioration in Overall gearing (including acceptances) to over 0.75x on a sustained basis due to any significant debt funded capex*
- *Significant deterioration in working capital cycle*

<u>Outlook: Positive</u>

The revision in outlook to 'Positive' factors in the improvement in PPFL's operating margins and overall financial profile due to the management's strategy of stocking up on inventory before the rise in price of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

raw materials in Q1 FY21. The Positive outlook also considers the strong likelihood of future debt requirements being restricted to working capital borrowings only, given the large quantum of unutilised IPO proceeds (Rs. 212.00 as on September 31, 2020) and the company's strong cash accruals (Rs. 85.99 crore during H1FY21) would also be utilized towards the envisaged capex. Thus, the debt coverage indicators are expected to remain comfortable going forward.
CARE Ratings expects the company to sustain its strong liquidity and improved financial profile, despite the likely moderation in PBILDT margins due to rise in raw material costs during H2FY21 and beyond. The outlook may however be revised back to 'Stable' if the company displays a significant reduction in its operating margins or the capital structure weakens considerably due to high incremental borrowings on account of stretch in working capital cycle or large debt fuelled capex plans.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experienced promoters and professional management team
PPFL is headed by Mr. Jayant Chheda, founding promoter of the company, with more than three decades of experience in the pipe industry. Under the leadership of Mr. Chheda the company expanded its operations from single manufacturing unit to six manufacturing units while the seventh unit is presently being developed. Mr. Jayannt Chheda is assisted by his family members, Mr. Parag Chheda and Mr. Vipul Chheda, each having more than two decades of experience in the industry, and Mrs. Heena Chheda having more than 14 years in the pipes and fittings segment. Moreover, the company has five independent directors and two Non-executive (Nominee) directors for better governance, and professional management team for handling different operations of the company.

Improvement in capital structure and debt coverage indicators
The debt coverage indicators of PPFL have improved due to decline in debt level due to repayments, and funding of incremental capex through internal accruals. Accretion of profits to reserves has led to increase in the net-worth and improvement in the overall gearing. The interest coverage indicators, that is PBILDT interest cover and PBIT interest cover are also improving due to increasing operating profit resulting from improved scale of operations.
The capital structure of PPFL is expected to remain stable as PPFL does not plan to avail any incremental long term debt. PPFL would be funding its entire on-going capex through internal accruals/proceeds from IPO. In FY20 and FY21 (till date), PPFL has repaid Rs. 130.00 crore and Rs. 34.20 crore respectively, against scheduled term debt repayments of Rs. 66.32 crore and Rs. 16.56 crore respectively. As a result, the overall gearing which stood at 0.43x as on March 31, 2020, is expected to strengthen to below 0.27x as on March 31, 2021 as per CARE estimates. PPFL's PBILDT interest cover which was 7.16x in FY20, is likely to be maintained over 9.07x in the current financial year.

Long track record of the company's operations and recognised brand name
The company has been present in the plastic piping business since 1987. Through more than three decades of its presence in the industry, the company has been able to build a niche for its brand 'Prince piping systems'. In October 2012 the company acquired 'Trubore' brand which caters to South India, primarily in Tamil Nadu. Having recognized brand name helps the company in commanding premium as compared to other smaller unorganized players.

Wide distribution network and infrastructure leading to nationwide presence
As on November 03, 2020, PPFL had distributors and wholesalers network of 1408 and 11 warehouses to store its products at different parts of the country. PPFL has strategically set up its manufacturing plants

at locations, which has enabled it to achieve geographical diversification and minimize the time lag between order inflow and delivery of products.
PPFL had six manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, Athal and Jobner in Rajasthan. Another plant is in the process of being set-up at Sangareddy (Telangana) as currently South Indian market is catered to by the plants in Athal and Haridwar. In addition, PPFL also outsources some of its manufacturing to five contract manufacturers. As of March 31, 2020, the total installed capacity of Prince Pipes' six existing plants was 2,55,899 TPA.

Diversified product portfolio
The company has well diversified product portfolio of polymer pipes and fittings which includes CPVC, UPVC, PPR, and DWC pipes. The company also manufactures CPVC, UPVC, and PPR fittings. Through its large basket of products, the company caters to varied user base such as water supply and sanitation, irrigation, plumbing, and drainage lines. Diversified user base helps the company in tiding over low demand from any particular user industry.

Improvement in financial performance and consistently growing scale of operations
Even during COVID-19 pandemic, PBILDT margins have improved from 14.46% in FY20 to 15.64% in H1FY21. Gross cash accruals also increased from Rs. 46.19 crore in Q2 FY20 to Rs. 61.23 crore in Q2 FY21. The increase in operating margin and cash accruals was due to acquiring raw material inventory before increasing trend of PVC prices, favorable product mix towards high margin CPVC segment, better pricing power due to market consolidation, and economies of scale owing to volume growth.
PPFL has been consistently working towards expanding its scale of operations by expanding its geographical reach as well as increasing penetration of the market where it is already present. PPFL collaborated with Lubrizol to produce high quality, premium CPVC product FlowGuard plus. Through this collaboration, PPFL seeks to establish itself in B2B market. Moreover, commercialization of on-going capex Telangana plant will also lead to high scale of operations, and decrease in expenditure incurred on logistics and transportation in serving Southern markets of India, consequently aiding to increment in margins.

Key Rating Weaknesses

Presence of large number of players leading to high competition in the industry
The piping industry in India comprises of large number of unorganized players with local presence, and some large organised players. Large number of unorganized players in the industry leads to high competition amongst the existing players, as these players largely compete with each other on their pricing. Nevertheless, larger organized players are better placed in the market due to their superior quality, brand name, and their ability to negotiate with the suppliers of raw materials.

Susceptibility of margins to volatility in raw material prices and currency movements
PPFL’s operations are raw material intensive with raw material expenses forming around 70% of its total operating income. The primary raw materials consumed by the company are CPVC, UPVC, PPR, and HDPE resins which are derivatives of crude oil. Crude oil prices have shown volatility in the past thereby impacting an entity’s operating margins. Volatility in international price of raw materials, fluctuations in the exchange rate and demand-supply mismatch are the key risks faced by players in the pipes and fittings industry.
Given that 40% of the pipes and fittings industry is unorganized and characterized by intense competition, players are not fully able to pass on the increase in raw material prices to end users. However, organized players are better placed to face the risks as they enjoy established relationships with raw material suppliers, wide distribution bases and brand presence. Consequently, they are better positioned to pass

on the increase in raw material prices to end users. However, fragmented nature of industry may lead to lag in passing on increase in input prices, thus may affect the company's profit margins in the short term.

Exposure to project Risk

PPFL is in the process of setting up a plant in Telangana entailing a total project cost of Rs.196.10 crore. The capex is expected to be funded majorly through IPO proceeds. The Sangareddy (Telangana) plant is expected to have total installed capacity of around 51,943 tonnes per annum for manufacturing of UPVC, CPVC, DWC pipes, and UPVC/CPVC fittings. Of the above cost, approximately Rs. 38.00 crore has been expended towards the plant. In terms of percentage, 21% of the work has been completed towards this plant. PPFL has entered into the contracts for the construction of the plant and purchase, installation and commissioning of the plant and machinery, and the management expects commencement of operations in Q1 FY22 and Q2 FY22, and all the approvals required are broadly in place. However, the company would be monitoring the COVID situation and demand and accordingly make changes in the capex cycle if required.

Liquidity: Strong

The liquidity position is strong, marked by healthy cash accruals (CARE Ratings estimates the company's accruals to exceed Rs. 189.00 crore in FY21) and large cash balances. PPFL had Rs. 100.00 crore of unencumbered cash and Rs. 212.00 of cash from the unutilised IPO proceeds as on September 30, 2020. CARE Ratings expects liquidity to remain strong even after prepayments of long term debt during the 9M FY21. The company has totally repaid around Rs. 34.20 crore of debt during 9M FY21, against scheduled repayment of Rs. 16.56 crore. The utilization of the Rs. 190.00 crore fund based limits for the past 12 months ending November 30, 2020 was 72.40% and provides additional liquidity backup.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies
Complexity Levels of Rated Instruments

About the Company

Prince Pipes and Fittings Limited (PPFL) is promoted by the Chheda family having over three decades of experience of manufacturing polymer pipes. The company manufactures CPVC (Chlorinated polyvinyl chloride) pipes and fittings, UPVC (Un-plasticised Polyvinyl Chloride) pipes and fittings, PPR (Polypropylene Random) pipes and fittings, High-density polyethylene (HDPE) and DWC (Double Wall Corrugated) pipes. It offers piping systems and fittings in the segments such as plumbing, sewage, agriculture and borewell.

PPFL has six manufacturing plants at Haridwar, Dadra, Chennai, Kolhapur, Athal and Jobner, Rajasthan. Further, PPFL is also in the process of setting up a plant in Sangareddy (Telangana) having a capacity of 51,943 MT, the total cost of which is estimated to be ~Rs.196.10 crore which would be majorly funded through proceeds from Initial Public Offer (IPO). In December 2019, PPFL had concluded the IPO, wherein it raised Rs.338 crore of which Rs.250 crore was from fresh issue of equity, while rest Rs.88 crore were through Pre IPO Placement. The company has placed the IPO money in fixed deposits of Rs.244.82 crore in FY20, which will be utilized for capex and upgradation of existing facilities. In addition, the company also outsources some of its manufacturing with its contract manufacturers located at Aurangabad

(Maharashtra), Hajipur (Bihar). As of March 31, 2020, the total installed capacity of PPFL's six existing plants was 2,55,899 MT per annum.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total operating income	1576.11	1642.42	769.63
PBILDT	188.30	237.50	120.36
PAT	82.13	112.51	57.82
Overall gearing (times) including LC acceptances	1.06	0.43	NA
Interest coverage (times)	5.19	7.16	9.88

A: Audited; UA: unaudited; NA: Not Available

Status of non-cooperation with previous CRA: ICRA BBB-; Stable /A3 (Suspended on May 30, 2016)
Any other information: NA
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September 2025	30.04	CARE A-; Positive
Fund-based - LT-Working Capital Demand loan	-	-	-	-	190.00	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	317.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	30.04	CARE A-; Positive	1) CARE A-; Stable (20-Feb-20)	1)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Aug-18)	1)CARE BBB+; Positive (26-Feb-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
2.	Fund-based - LT-Working Capital Demand loan	LT	190.00	CARE A-; Positive	1)CARE A-; Stable (20-Feb-20)	1)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Aug-18)	1)CARE BBB+; Positive (26-Feb-18)
3.	Non-fund-based - ST-BG/LC	ST	317.00	CARE A2+	1)CARE A2+ (20-Feb-20)	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (03-Aug-18)	1)CARE A3+ (26-Feb-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Demand loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID - mradul.mishra@careratings.com

Analyst Contact
Rating Head Name – Sudarshan Shreenivas
Rating Head Contact no. – +91 98204 39195
Rating Head Email ID – sudarshan.shreenivas@careratings.com

Group Head Name - Arunava Paul
Group Head Contact no.- +91 98209 04584
Group Head Email ID - arunava.paul@careratings.com

Relationship Contact
Name - Saikat Roy
Contact no. - 022 6754 3404
Email ID - saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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