



Quick Insight

Prince Pipes and Fittings Limited (PPFL)



Industry Plastic Products

CMP ₹315.25

M Cap ₹34.68 bn

Buy Range ₹275-290

Target ₹375-390

Recommendation Buy on Dips

Highlights

- Strong and balanced exposure to plumbing, irrigation, sewage disposal, and underground drainage differentiates Prince Pipes from peers.
- Strongest distribution network across urban, semi-urban, rural areas
- Strategically located manufacturing facilities help control freight cost
- Focus on higher margin products- fittings, CPVC plumbing, PPR
- Extending Brand presence to plastic tanks to leverage its strong pan India brand and distribution.
- Tie up with Lubrizol to manufacture and sell CPVC pipes under the Flow Guard brand to provide easy entry to projects business because the brand is the first choice among builders.
- Valuations are at huge discounts to its peers.

About the Company

Incorporated in 1987, Prince Pipes and Fittings Limited (PPFL) is one of India's largest integrated piping solutions & multi polymer manufacturer based in Mumbai.

Over three decades, the company has been engaged in the manufacturing of polymer piping solutions in four types of polymers - **CPVC, UPVC, HDPE, and PPR**. In Jun'20, the company announced the launch of its new water tank segment- 'STOREFIT' through a pilot launch in Gujarat that will be gradually launched across markets in India. The Company's head office is located in Mumbai, Maharashtra.

Investment Rationale

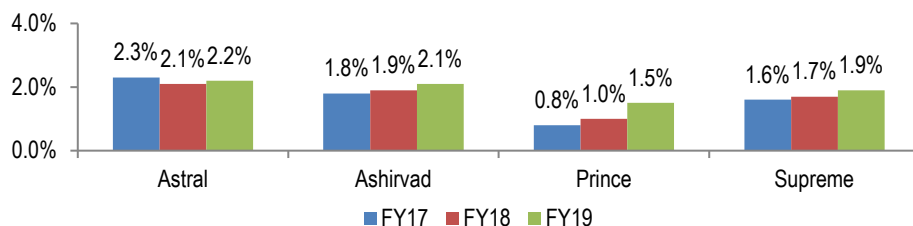
I. Comprehensive Product Range serving diverse end user applications

- It offers a wide and comprehensive product range comprising 7,200+ SKUs- one of the largest among its peer set.
- It is using four different polymers- UPVC, CPVC, HDPE and PPR- thereby having a presence across plumbing, sewerage, industrial, agriculture.
- It has created a separate vertical for introducing niche products and technologies in the trade.

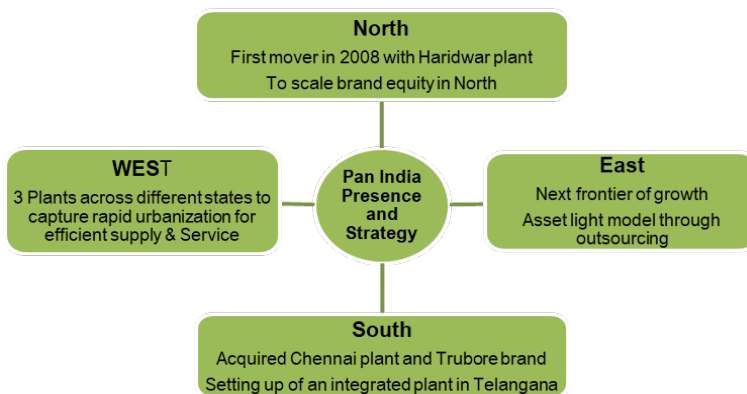
II. Wide manufacturing base

- The company has a strong presence in West India with three plants located in different states. It will expand its reach in the South market with the commencement of the Telangana plant in Q3FY22 along with strengthening its position in North market with the newly commissioned plant at Jaipur.
- The company has a competitive advantage in the North market as it is the first mover in that geography which is contributing majority of the revenue.
- Further, it will continue with its asset light model in the East to cater to the growing demand.
- The company incurs the lowest freight cost in the industry led by its wide manufacturing location.

Freight Cost as % of Sales



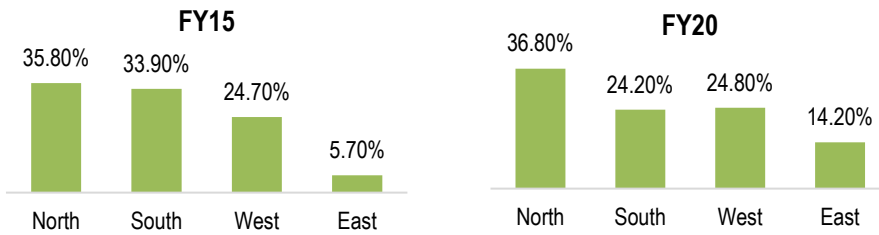
Source - Company, Way2Wealth



Source - Company, Way2Wealth

Nifty	14,645
Sensex	49,792
Key Stock Data	
CMP	₹315.25
Market Cap (₹)	₹34.68bn
52W High/Low	₹321.55/75
Shareholding pattern (%) Dec'20	
Promoter	63.25
Public & Others	36.75

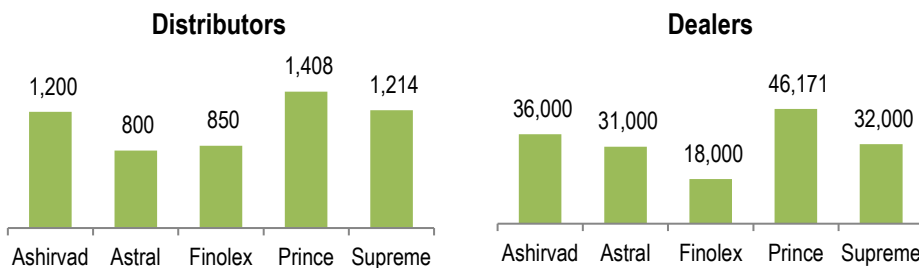
Source: Company Data, Way2Wealth Research

Sales Profile Geographical spread


Source - Company, Way2Wealth

III. Robust Pan India distribution network

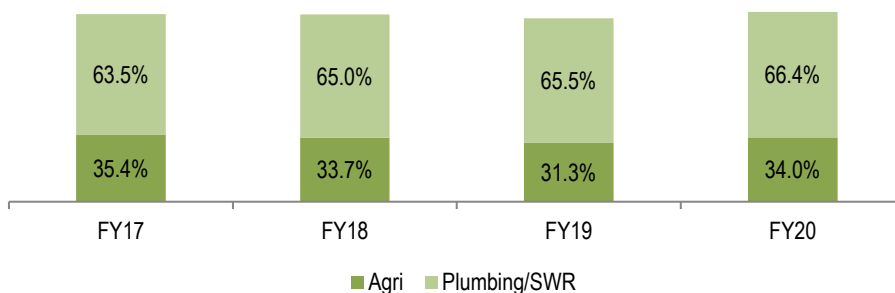
The company has 1,408 distributors and retail touch points of 46,171- highest among its peer.



Source - Company, Way2Wealth

IV. Margin Levers

- The company is continuously focusing on selling higher margin products i.e., Non-Agri.
- The change in product mix has led to increase in margins which are reflected in last four fiscals.
- The company is also experiencing operating leverage due to good volume growth of ~11% over past four fiscals.

Change in Product Mix with rising share of Plumbing/SWR pipes


Source - Company, Way2Wealth

Strategy Going Forward
I. Tie-up with Lubrizol for “Flow Guard” brand to boost CPVC Sales

- Brand has an edge in project business and provide easy entry to projects because the brand is the first choice among builders.
- However, the company will be the third player using the Flow Guard brand, which is currently used by Astral and Ashirwad as well.
- In the near term, we can see brand dilution as well as increase in competition in the fastest growing sub -segment i.e., CPVC

II. Technical Collaboration with Tooling Holland

- The collaboration will help the company offer high quality products along with improvement in productivity and cost efficiency.
- Tooling Holland has experience of over 30 years in development and production of injection moulds.

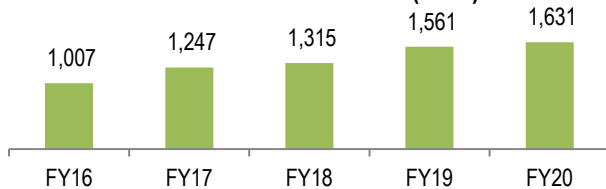
III. Leveraging Brand and Distribution Size for new product offerings

- The company has expanded its product offerings to Plastic Tanks under brand 'Store Fit'.
- The company has currently made pilot launch in Gujarat and it has plans to expand aggressively led by its distribution network based on the response received.

Consistent Financial Track Record

Robust Revenue CAGR of ~13% FY16-20

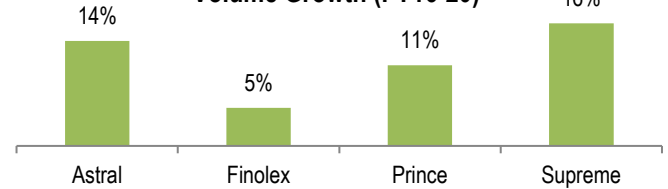
Net Revenue from Products (₹Cr)



Source - Company, Way2Wealth

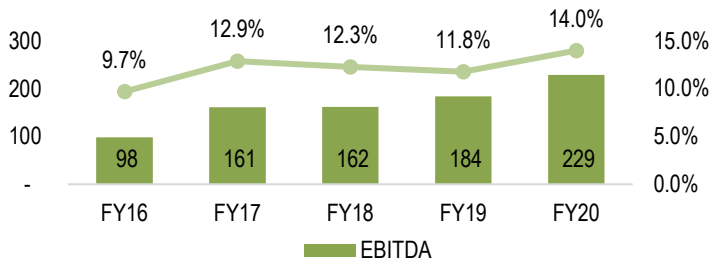
Aided by Volume CAGR of ~11%

Volume Growth (FY16-20)



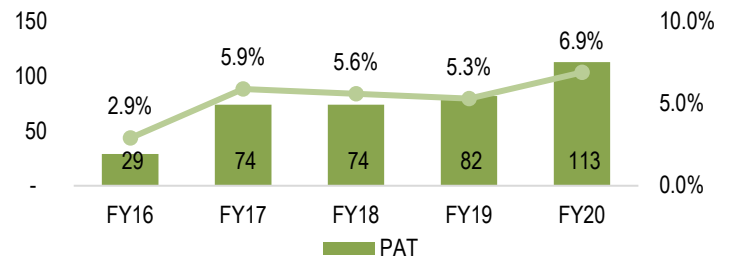
Source - Company, Way2Wealth

Expansion in Margins



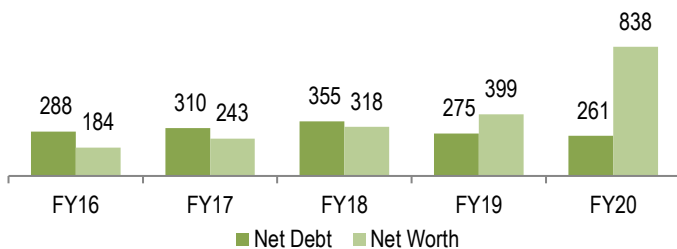
Source - Company, Way2Wealth

Consistent Improvement in Earnings..



Source - Company, Way2Wealth

Low D/E Ratio



Source - Company, Way2Wealth

Higher Fixed Asset Turnover

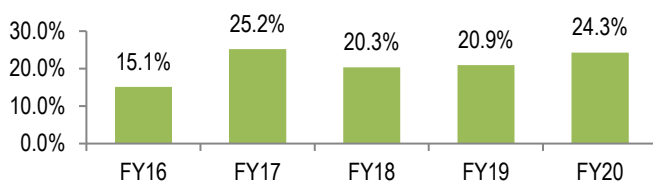
Net Fixed Asset T/O



Source - Company, Way2Wealth

Robust Return Ratio

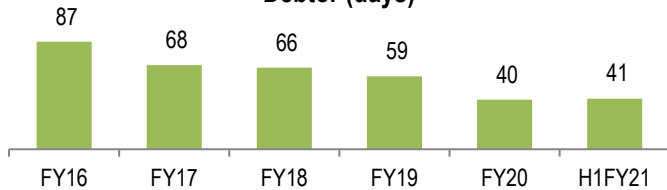
ROCE



Source - Company, Way2Wealth

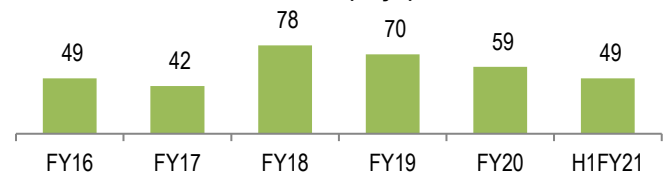
Improvement in WC

Debtor (days)



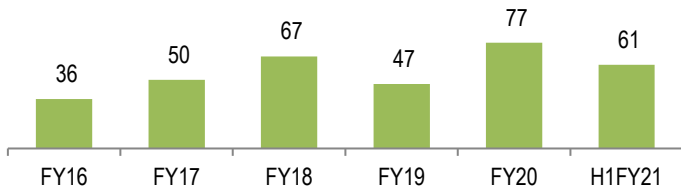
Source - Company, Way2Wealth

Creditor (days)



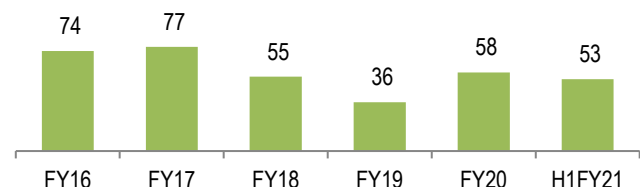
Source - Company, Way2Wealth

Inventory (days)



Source - Company, Way2Wealth

Working Capital (days)



Source - Company, Way2Wealth

Key Risks

➤ Contingent Liability –

○ Channel Financing with recourse option

To improve its working capital cycle, the company shifted few of its major distributors under channel financing. The company has ₹853mn as contingent liability of which ₹830mn was related to guarantees given to Yes Bank and ICICI Bank for channel financing facility availed by its distributors.

For any reasons, if these contingent liabilities materialise, it would adversely affect the company's financial conditions.

○ Litigation overhang persist

Promoters of the company (Mr. Jayant Chedda and Mrs Heena Chedda) own 10% interest each in a partnership firm, M/S Aditya Developers (Aditya).

In December 2010, Aditya entered into JV with Montano Developers to develop a real estate property.

The dispute is over a piece of land and the total claim by Montano developers stood at ₹9.05bn to be paid by Aditya and its partners.

In case the promoters lose the case, the liability will be limited to the extent of their share (20% i.e. ₹1.8bn)

The matter is pending in court and thus exact financial liability is unknown.

➤ Risks –

○ Slowdown in Construction activity would dampen the demand for plumbing and sewage products.

○ The company's raw materials are derived from crude oil, which has seen spike in last six months-this would lead to increase in raw material costs.

Outlook

The company has strong differentiation from its peers as it has a balanced presence across the plumbing, industrials, agriculture and sewerage segment.

To aid the diversified end users- the company has a comprehensive product range and highest distribution network amongst its peers.

Also, the company has shown strong and consistent financial track record in the past four years. Tie-up with Lubrizol will help the company to grow in the fastest growing sub-segment i.e., CPVC.

Considering all the above factors, Prince Pipes is in a strong position to drive higher growth in the medium to longer term. The stock should see upside as its available at a discount to peers - Prince Pipes trading at ~26x, Supreme Industries ~45x, Astral ₹130x trailing 12 month FY20.

We recommend investors to Buy on Dips.

Financial Performance

(₹ Cr)

P&L	H1FY21	H1FY20	Growth %Y-O-Y
Revenue from Operation	761	809	-6%
EBIDTA	112	118	-5%
EBITDA margin%	14.7%	14.6%	10 bps
Other Income	8	1	7x
Depreciation	29	24	21%
Finance Cost	12	16	-25%
PBT	79	78	1%
PBT margin%	10.4%	9.7%	70 bps
TAX	21	19	11%
PAT	58	60	-3%

Source: Company Data, Way2Wealth Research

(₹ Cr)

Key Balance Sheet Details	30-Sep-20	31-Mar-20	31-Dec-19	30-Sep-19
Net worth	895.4	837.7	821.7	459.5
Long Term Debt (Including Current Maturity)	42.2	56.0	108.3	150.7
Short Term Debt	143.7	203.8	194.4	171.7
Total debt	185.9	260.9	302.7	322.4
Cash and cash equivalents	80.3	0.1	79.0	7.9
Other Balances with banks	226.5	256.9	237.5	16.0
Fixed Assets (including CWIP)	480.5	496.1	486.2	463.3
Receivables	169.0	179.7	162.3	166.2
Payables	140.1	180.8	180.2	197.1
Inventories	255.0	344.5	324.3	288.2

Source: Company Data, Way2Wealth Research

Technical View

After posting a fresh low of around 75; Stock rebound sharply and formed 'Higher Top Higher Bottom' formation on daily chart. If we meticulously look at daily chart, during every pullback stock found support near its 50-DMA which is still rising. Today, stock managed to cross its all-time high of 309.30 and hit a fresh high of 321.50. On a weekly chart, price constantly trading above its 20-MA which is a sign of strength. Combining the above evidences, we believe that the primary trend of stock is still up as long as stock is holding its swing low of 244.55. Hence, any meaningful correction towards 290 to 275 should be use as an opportunity to accumulate this stock with an upside price target of 375-390 levels respectively. Stop loss to be placed at 240 below which stock will break the sequence of 'Higher Top Higher Bottom' formation.



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Name of the Security	Prince Pipes and Fittings Limited (PPFL)
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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Broking relationship with company covered	NIL
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