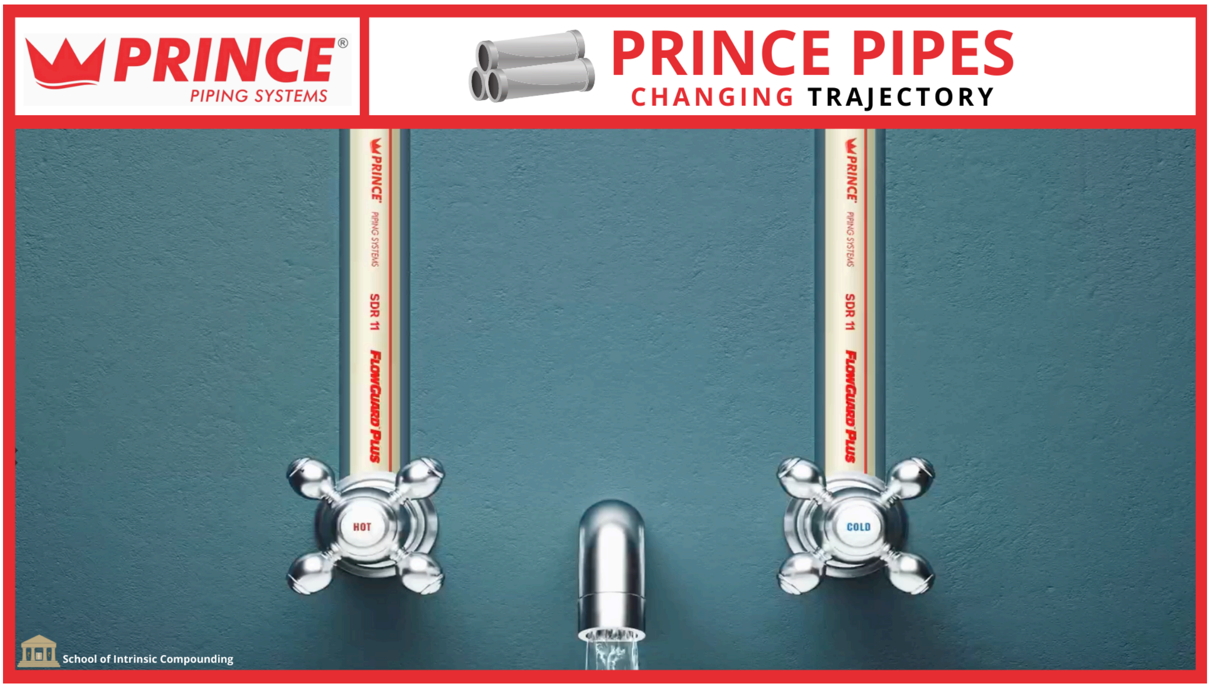


Prince Pipes: On A Journey To Be The Next King?

In our Astral Poly Technik Stock Analysis we had mentioned that there are going to be multiple winners from the pipes industry as the industry is going through tailwinds leading to double digit growth.

In this blog we will be discussing one of the players who could have the potential to come out as a winner: **Prince Pipes** and **Fittings Ltd.**

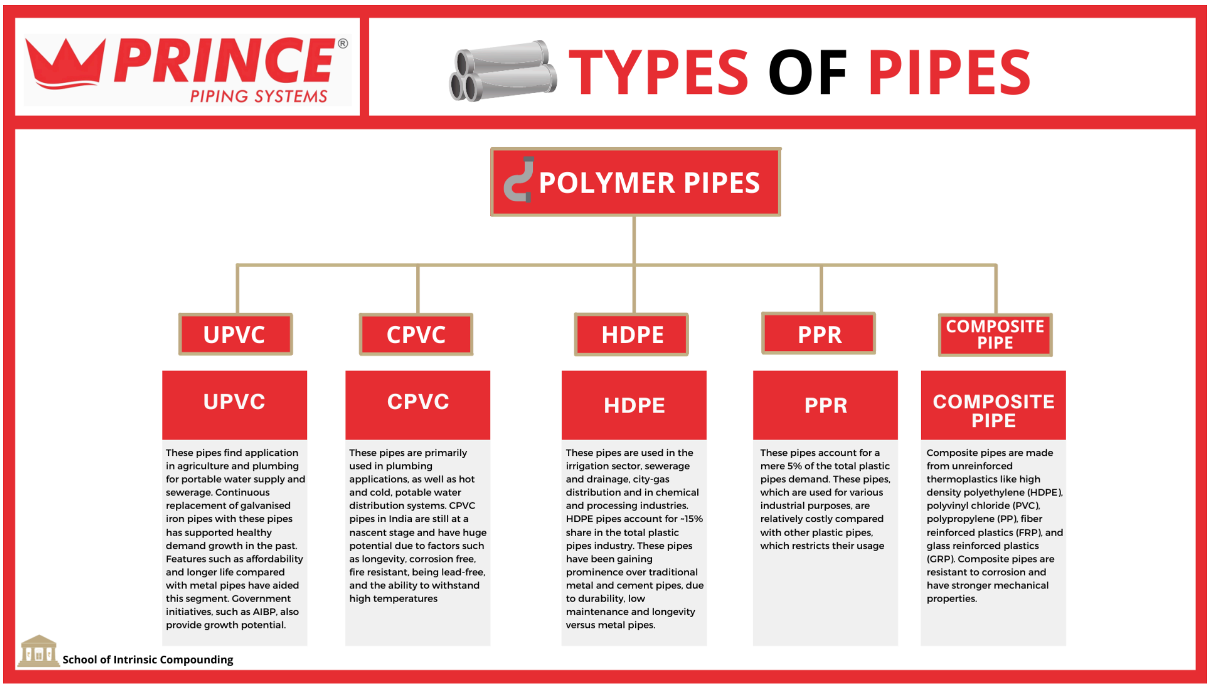
About the Company

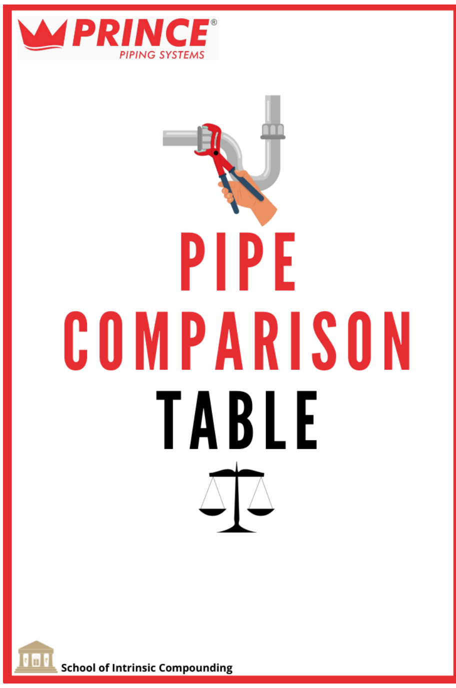
Company was started in 1987, which shows that it has around more than 3 decades of experience in the plastic pipes industry. It has three brands through which the company sells its products: **PRINCE**, **Trubore** (acquired in 2012) and **FlowGuard Plus** (a collaboration with **Lubrizol**).

The group was divided among the brothers in the 1990s but both brothers were operating with the same name and logo. Around 2008, the competition started to intensify between the brothers due to which management focused on changing from being a quality product company to defeating their rival **Prince SWR**. This led to indulging in the practice of compromising on quality by using more calcium carbonate to save cost and extending credit policy which led to damaging the balance sheet. Later around 2014, the management started to wake up from the short-sighted vision of defeating **Prince SWR** as the end goal towards becoming much larger than that. Soon, they changed their logo to the current one and started focusing on branding. In 2018-2020 they brought in Akshay Kumar as a brand ambassador, tied up with Lubrizol, brought in a professional team (unlike previously fully managed by promoters), fixed up governance issues, etc. Now, the management seems to be hungry for growth and wants to be portrayed as a one stop shop for piping needs with premium quality.

Industry Structure

The industry structure has already been covered on [SOIC's YouTube channel] but in short, the mental model of *value migration* is playing on in this industry where the value is getting migrated from metal pipes towards plastic pipes.





	Galvanised iron (GI)	UPVC	CPVC	HDPE	PPR
Life (years)	15-20	20-25	30-35	50	50
Max operating temperature (degrees Celsius)	200-250	60-70	90-100	90-100	90-100
Strength (hoop)	Higher than plastic pipes	500-600	450-550	350-400	250-300
Cost	Costlier than plastic	Cheaper than GI	Cheaper than GI, costlier than UPVC	Cheaper than GI, costlier than UPVC	Cheaper than GI, costlier than UPVC
Corrosion	Corrodes faster	No effect due to chemical resistance	Has anti-corrosive properties	Excellent anti-corrosion and chemical resistance	Good chemical resistance and corrosion resistance
Leakage	Vulnerable to leakage	Leakage-free	Leakage-free for lifetime	Leakage-free	Leakage-free but requires installation by skilled manpower
Bacterial growth	More prone to bacterial growth compared with plastic	Relatively low compared with GI	Extremely low compared with GI	Extremely low compared with GI	Relatively low compared with GI
Installation	Time- and energy-consuming	Done through cold welding	Done through cold welding	Cold welding. Known for more tolerance to poor installation	Fusion-welded system which requires specialised training and equipment
Thermal conductivity and insulation	Needs insulation as heat loss occurs faster due to high thermal conductivity	Requires less insulation as low thermal conductivity reduces heat loss	Requires less insulation as low thermal conductivity reduces heat loss	Require less insulation as low thermal conductivity reduces heat loss	Require less insulation as low thermal conductivity reduces heat loss

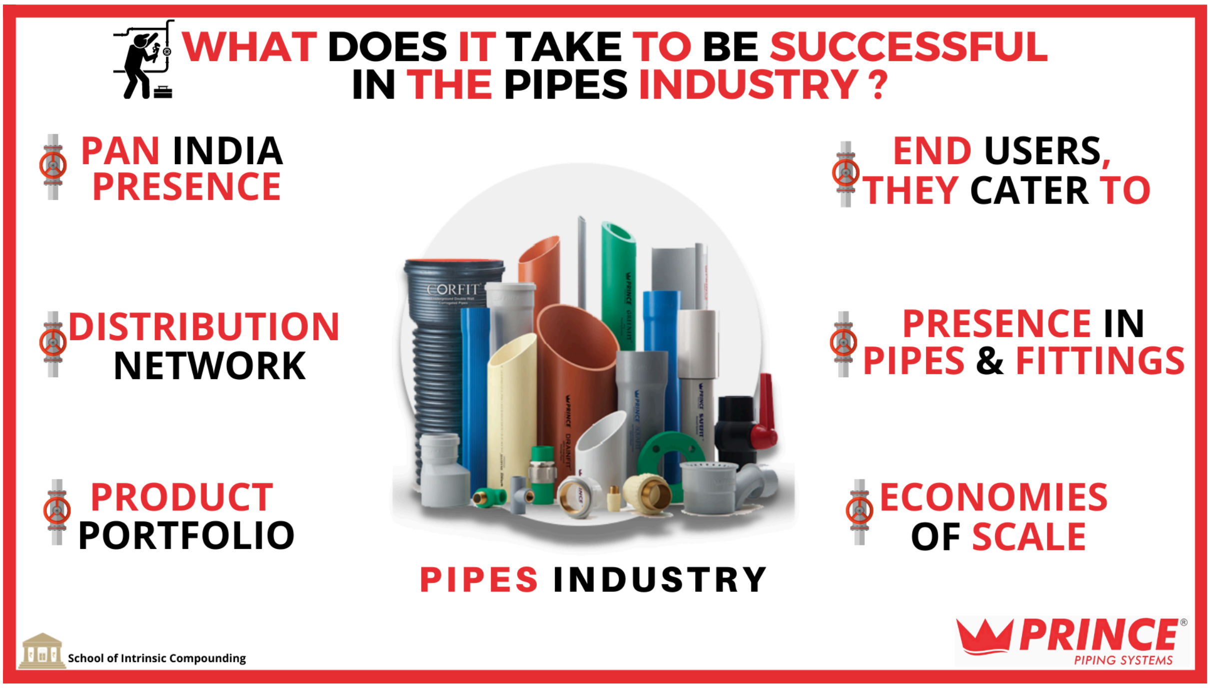
Business model

Prince Pipes does not sell pipes directly to the end users rather the value chain is as follows:

Company Distributor Wholesaler/Retailer and User (plumber, farmer, etc)

I know this seems very inefficient in the world where start-ups are coming up and disrupting the supply chain by removing middlemen, but this is how traditional industries still function.

Product differentiation is not easy in this industry, the max a player can do is acquire high quality raw materials which is good enough to fight the unorganised player but to fight the organised ones there can be few ways.



Product Portfolio

PRINCE PIPING SYSTEMS

PRODUCT PORTFOLIO OF DIFFERENT PLAYERS

PRODUCTS	1 ASHIRVAD PIPES	2 ASTRAL POLY TECHNIK	3 FINOLEX INDUSTRIES	4 SUPREME INDUSTRIES	5 PRINCE PIPES & FITTINGS	6 JAIN IRRIGATION
PVC PIPES	✓	✓	✓	✓	✓	✓
CPVC PIPES	✓	✓	✓	✓	✓	✓
HDPE PIPES	✗	✓	✗	✓	✓	✓
PPR PIPES	✗	✗	✗	✓	✓	✓

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Being in all the product segments is not the most profitable way to function in this industry as we can see, **Astral** is not present in every segment but they have been a great wealth creator. But **Prince Pipes** keeps making *low margin products* because they want to be considered as a brand with a basket of products in the industry.

Management on have basket of products:

PRINCE PIPING SYSTEMS

CON CALL EXTRACT

PRINCE PIPING SYSTEMS

PRINCE PIPES CON CALL EXTRACT Q3FY21

Nihar Chheda: The way the past few quarters have been I think we are fairly optimistic I would say going forward and like you mentioned I think urban metro seem to now are not only recovering, but are growing and whatever interactions we had with our key developers who we work with, there seems to be more sustainable and not just there for one quarter of pent-up demand, so I think big picture, we are fairly optimistic for plumbing and SWR part of the portfolio going forward because of the recovery that urban India has seen and the good part is you know we have entire range now right from our PVC plumbing pipes, SWR pipes, PPR we have always been market leaders and with CPVC, we have best in class product with Flowguard Plus coming in and what we noticed is that these developers want to work with one brand and who is able to give them an end-to-end solution for the entire basket of products. So I think we are fairly I would use the word optimistic going forward on the

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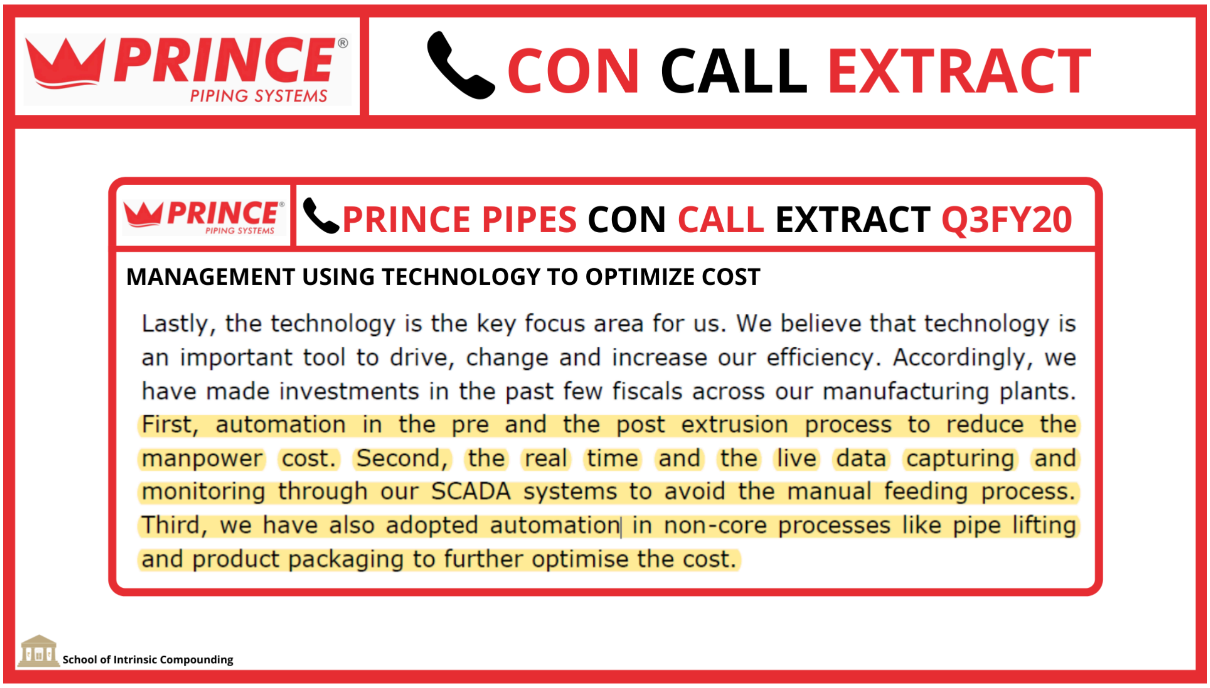
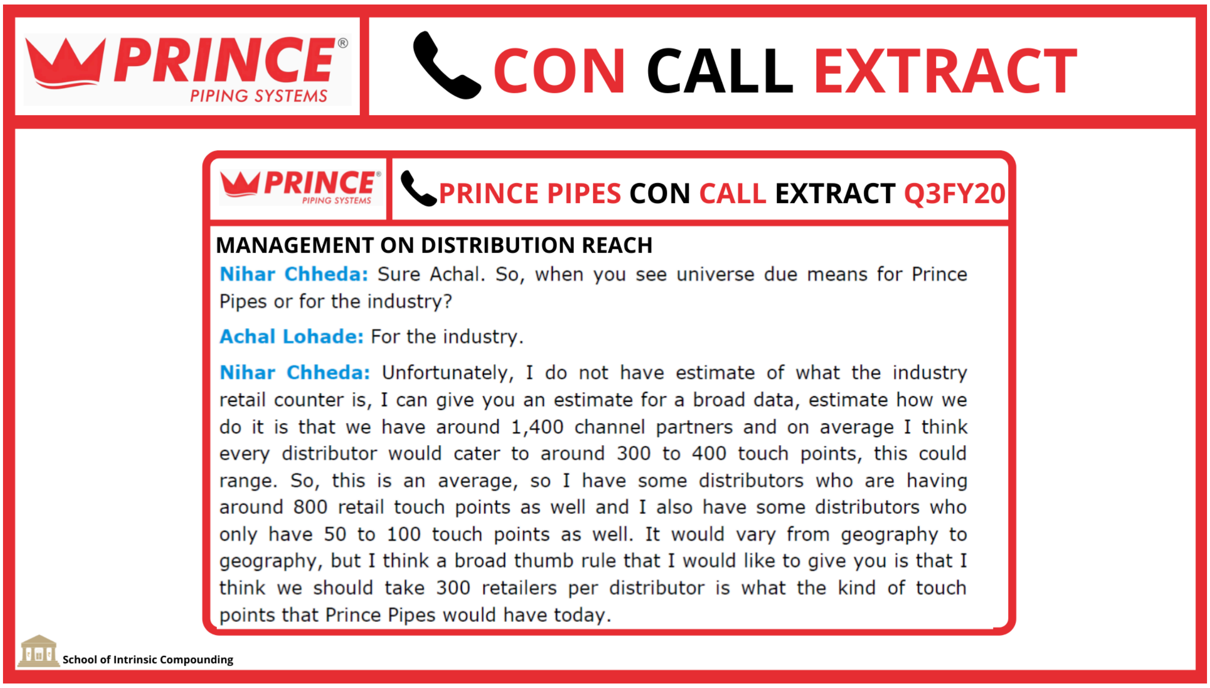
Distribution and Cost

If you remember from our APL Apollo video we learnt that they buy 2% of Indian steel consumption and 10% of Indian HR coil consumption, which enables them to get a 2% discount on their purchase. This led to them being very competitive at pricing and becoming a market leader with more than 50% market share. Therefore, a similar pattern can be seen in the pipes industry where your distribution reach can give you a competitive edge over your peers.

Management using technology to optimize cost:



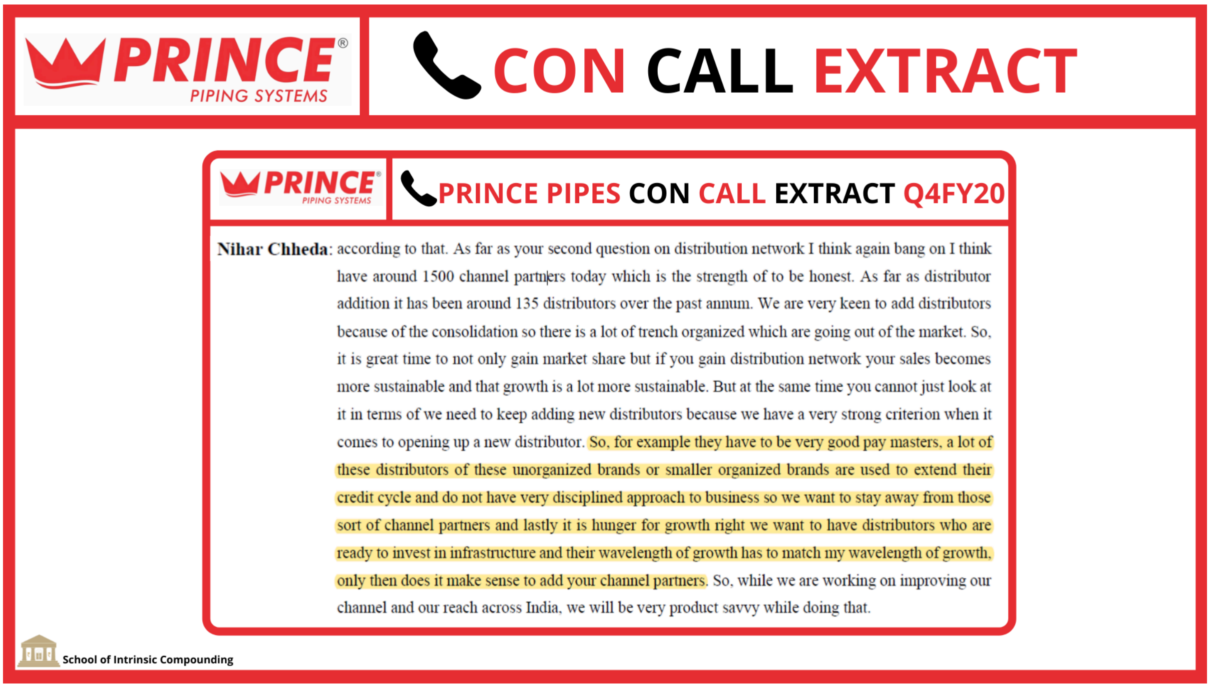
Management on distribution reach:



One interesting point to note is that 80% of our distributors of **Prince Pipes** are exclusive to them! This might not feel huge but think from the distributor's point of view. All the hard work these distributors do will directly go to **Prince Pipes's** revenues. But selecting the right distributors is very crucial. We do not want someone who doesn't put any extra effort and is satisfied with marginal sales. Luckily, management is aware of this.

Prince's management doesn't want to blindly expand the number of distributors they have, rather they look for qualitative aspects in a distributor before taking them aboard.

Here is what they look for in a distributor:



PRINCE PIPING SYSTEMS

CON CALL EXTRACT

PRINCE PIPES CON CALL EXTRACT Q4FY20

Nihar Chheda: according to that. As far as your second question on distribution network I think again bang on I think have around 1500 channel partners today which is the strength of to be honest. As far as distributor addition it has been around 135 distributors over the past annum. We are very keen to add distributors because of the consolidation so there is a lot of trench organized which are going out of the market. So, it is great time to not only gain market share but if you gain distribution network your sales becomes more sustainable and that growth is a lot more sustainable. But at the same time you cannot just look at it in terms of we need to keep adding new distributors because we have a very strong criterion when it comes to opening up a new distributor. So, for example they have to be very good pay masters, a lot of these distributors of these unorganized brands or smaller organized brands are used to extend their credit cycle and do not have very disciplined approach to business so we want to stay away from those sort of channel partners and lastly it is hunger for growth right we want to have distributors who are ready to invest in infrastructure and their wavelength of growth has to match my wavelength of growth, only then does it make sense to add your channel partners. So, while we are working on improving our channel and our reach across India, we will be very product savvy while doing that.

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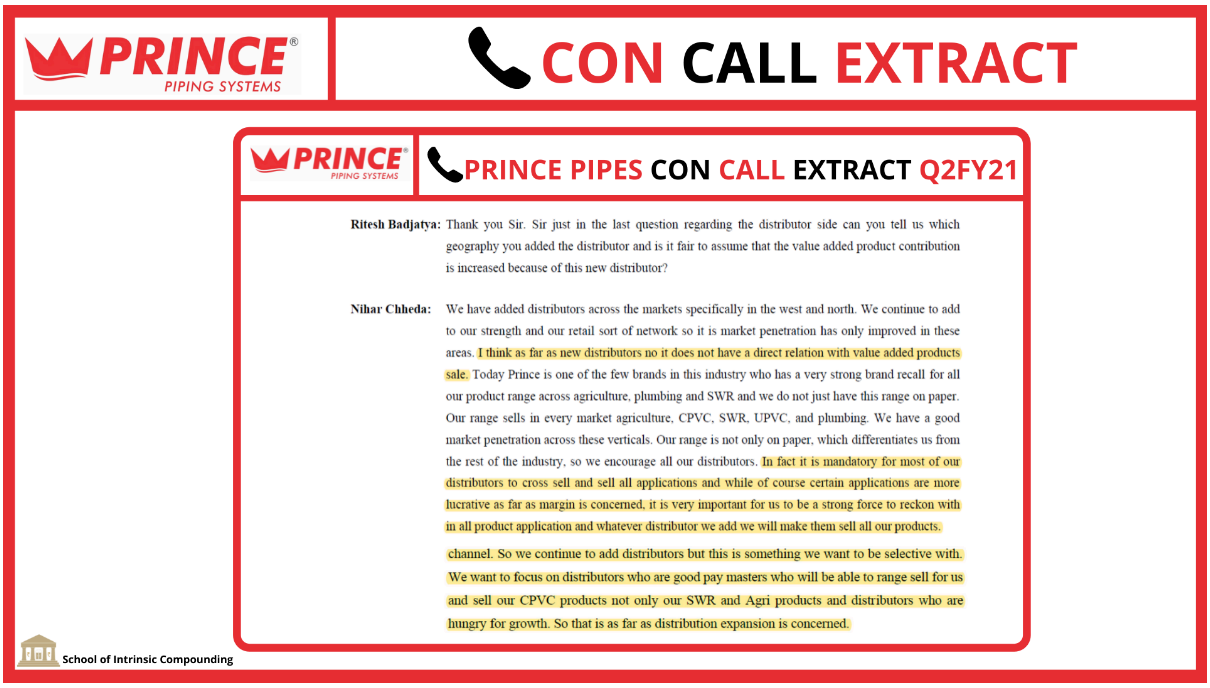

PRINCE PIPING SYSTEMS | CON CALL EXTRACT

PRINCE PIPES CON CALL EXTRACT Q2FY21

Ritesh Badjatya: Thank you Sir. Sir just in the last question regarding the distributor side can you tell us which geography you added the distributor and is it fair to assume that the value added product contribution is increased because of this new distributor?

Nihar Chheda: We have added distributors across the markets specifically in the west and north. We continue to add to our strength and our retail sort of network so it is market penetration has only improved in these areas. I think as far as new distributors no it does not have a direct relation with value added products sale. Today Prince is one of the few brands in this industry who has a very strong brand recall for all our product range across agriculture, plumbing and SWR and we do not just have this range on paper. Our range sells in every market agriculture, CPVC, SWR, UPVC, and plumbing. We have a good market penetration across these verticals. Our range is not only on paper, which differentiates us from the rest of the industry, so we encourage all our distributors. In fact it is mandatory for most of our distributors to cross sell and sell all applications and while of course certain applications are more lucrative as far as margin is concerned, it is very important for us to be a strong force to reckon with in all product application and whatever distributor we add we will make them sell all our products.

channel. So we continue to add distributors but this is something we want to be selective with. We want to focus on distributors who are good pay masters who will be able to range sell for us and sell our CPVC products not only our SWR and Agri products and distributors who are hungry for growth. So that is as far as distribution expansion is concerned.

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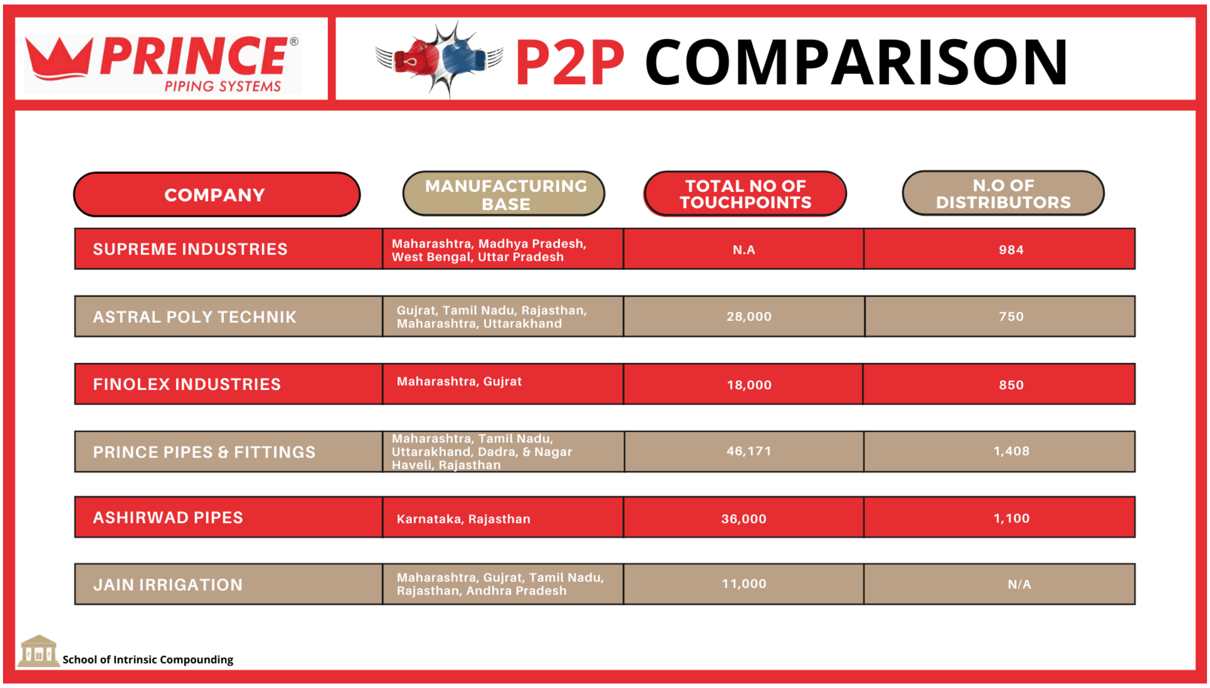

PRINCE PIPING SYSTEMS | P2P COMPARISON

COMPANY	MANUFACTURING BASE	TOTAL NO OF TOUCHPOINTS	N.O OF DISTRIBUTORS
SUPREME INDUSTRIES	Maharashtra, Madhya Pradesh, West Bengal, Uttar Pradesh	N.A	984
ASTRAL POLY TECHNIK	Gujrat, Tamil Nadu, Rajasthan, Maharashtra, Uttarakhand	28,000	750
FINOLEX INDUSTRIES	Maharashtra, Gujrat	18,000	850
PRINCE PIPES & FITTINGS	Maharashtra, Tamil Nadu, Uttarakhand, Dadra, & Nagar Haveli, Rajasthan	46,171	1,408
ASHIRWAD PIPES	Karnataka, Rajasthan	36,000	1,100
JAIN IRRIGATION	Maharashtra, Gujrat, Tamil Nadu, Rajasthan, Andhra Pradesh	11,000	N/A

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Further to increase their presence across India and keep the cost in check Prince also outsources their manufacturing process to few contract manufacturers and each manufacturing unit has an employee of Prince placed there who keeps the quality in check.

Branding

Astral is known as *"Dabangg wali pipe"* or *"Salman bhai wali pipe"* which is a crucial element for their huge success as it helped them to reach tier 2 & 3 cities.

Branding also helps in creating a mind share in the people's mind which helps a company to pass on any cost volatility without damaging their margins.

Here is an example:

In Q4FY21, they were the first one to pass on increased CPVC prices and rest followed:


PRINCE PIPING SYSTEMS CON CALL EXTRACT

PRINCE PIPING SYSTEMS PRINCE PIPES CON CALL EXTRACT Q2FY21

Ritesh Shah: My second question was you did indicate that in the prior question you did indicate that there has been PVC resin price increases, so the question is has the end product prices increased in proportion to the increase in raw material prices or is there some proportion left which is yet to be increased?

Nihar Chheda: It is fully passed on with immediate time. No lag and passing on and 100% passed on by Prince Pipes.

In Q4FY21, they were the first one to pass on increased CPVC prices and rest followed:

profitability, but also by the brand equity that we enjoy in the marketplace. Today, we understand that in order to be recognized as a market leader we need to behave like a market leader and pricing action is one such direction. I will explain what I mean with an example of a month like March where Prince was the first one to pass on an increase in CPVC systems and the rest followed us. We are obviously not leaders in the CPVC segment and hence it was not an easy call to take, but we took it, and it has been well accepted. In fact, I believe that these aggressive calls are contagious in the marketplace even distributors, retailers, competitors distributors can feel these things. Such actions help us become a preferred brand amongst brands. We may not be the first one to increase prices every time, but we have started in that direction and the intent is clear. Also, I would like to say that we cannot unilaterally be increasing prices overnight. This has been a gradual curve of a few years now which now we are supporting with major investments in branding across the country especially post the Lubrizol tie up and major investments in technology especially like management system, like Parag bhai said earlier we have a long way to go this is just a beginning and we need to be able to consistently do such things over the long term. So, that as far as margin is concerned I think your second question was on Lubrizol.

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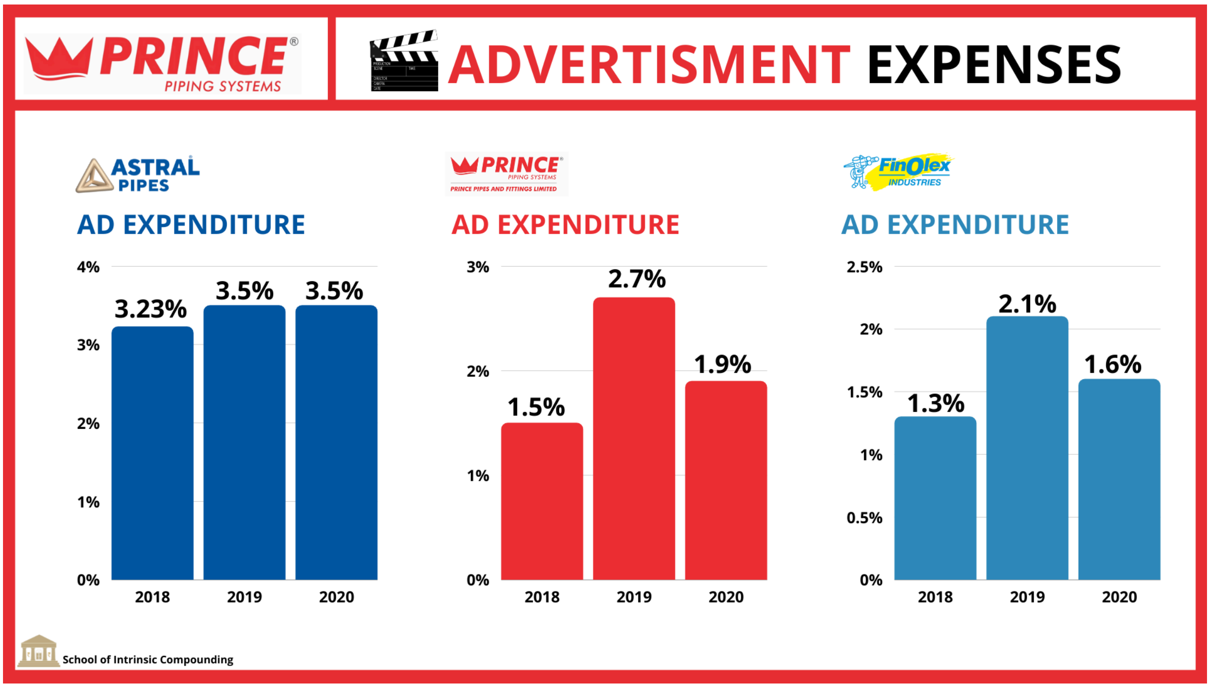
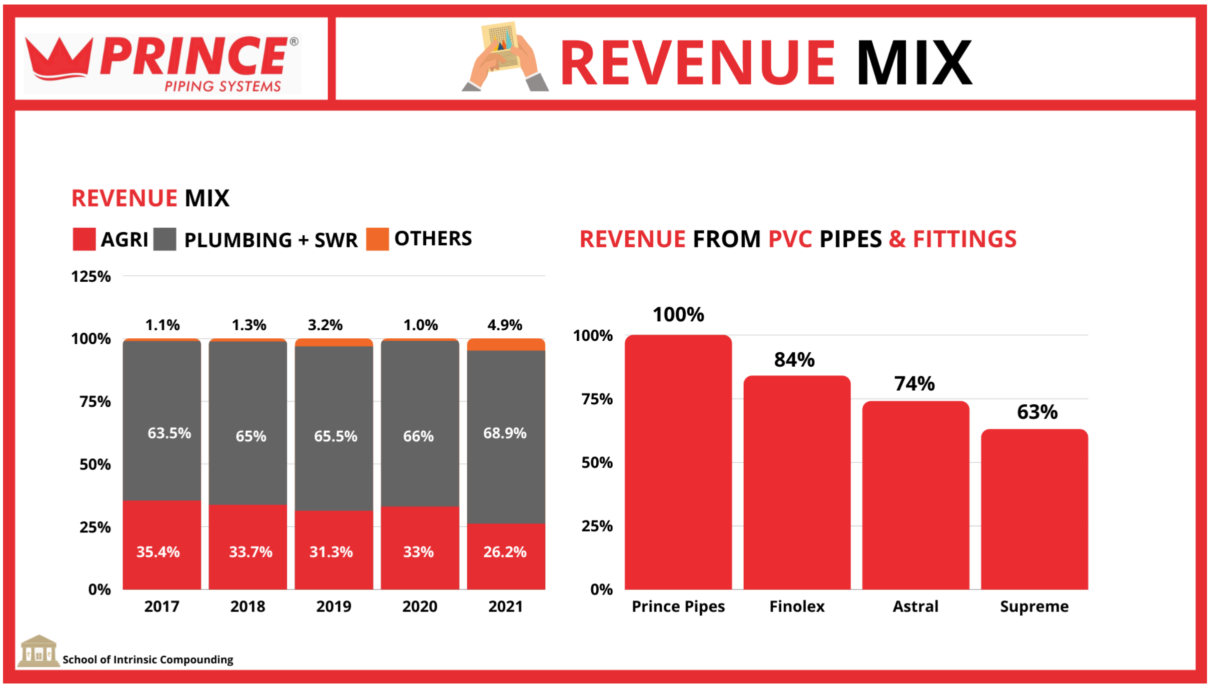
Prof. Sanjay Bakshi once said in a podcast (referring to **Warren Buffet**) that we should think about the owner's earnings as true earnings by giving an example of **Geico**. If there is a lot of spending on advertising on a business model which is growing and is taking away market share, it should not be treated as advertisement. As at the end of the day it is adding value to a company's earning power.

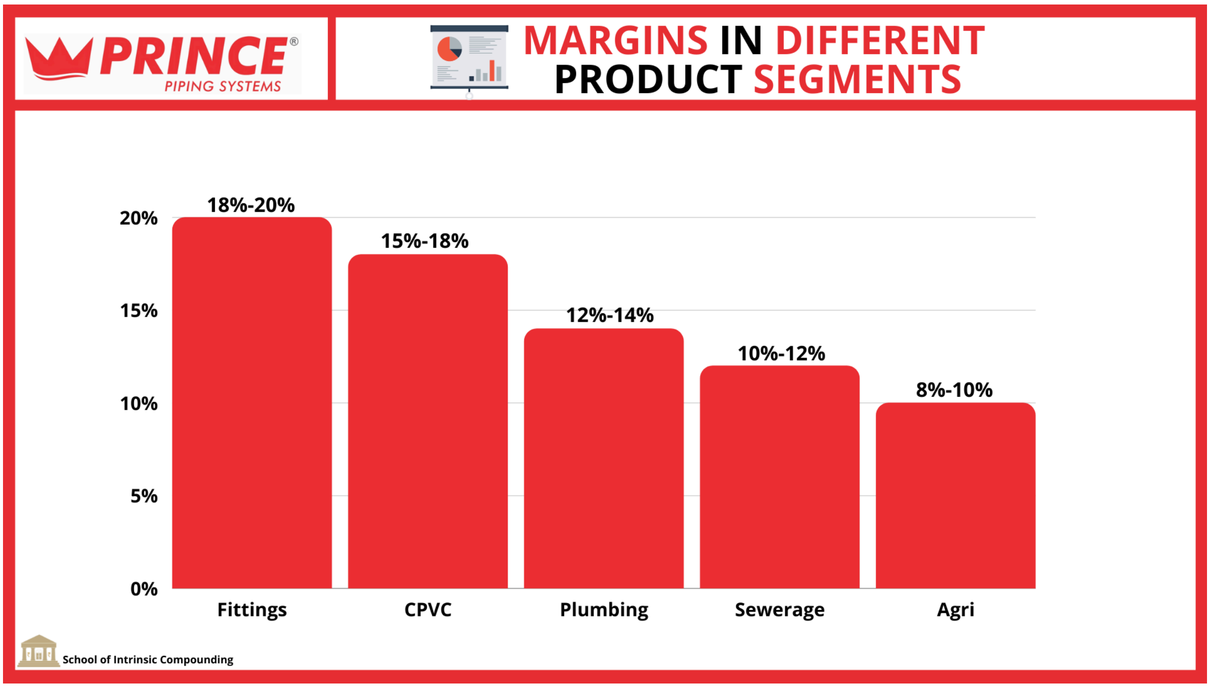


Revenue mix

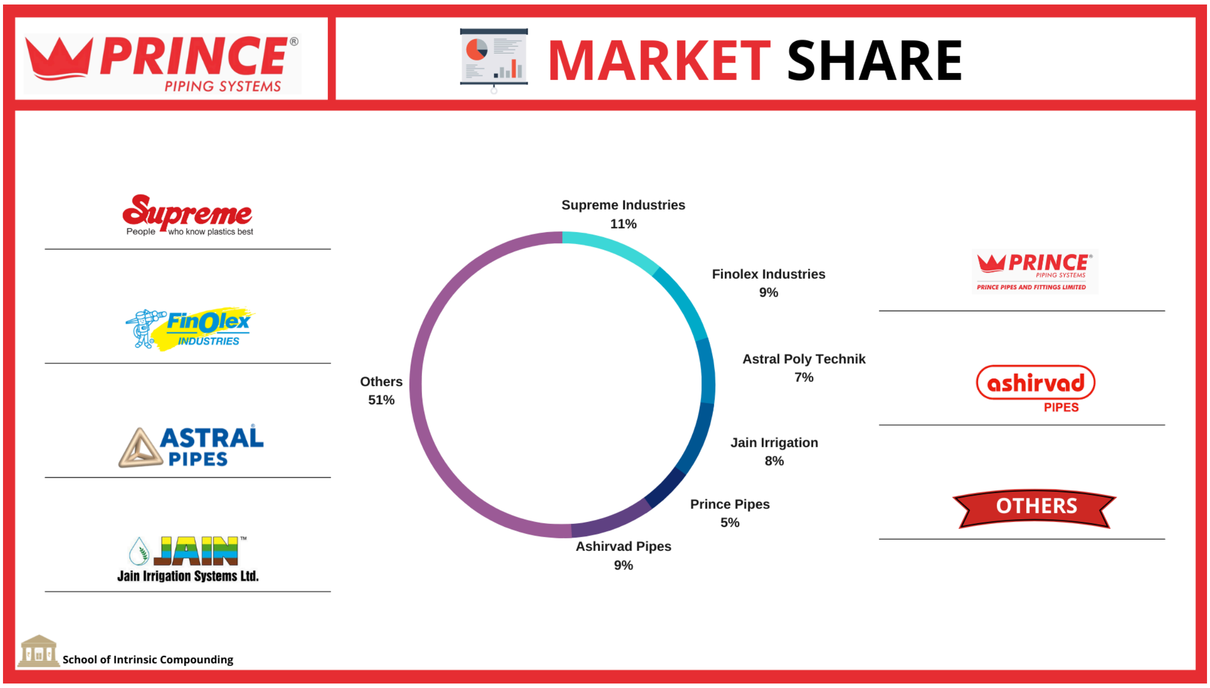


If we observe the revenue mix of the company, we can see that there is a trend playing out. Agriculture segment has gone down from 35% to 26% which is a low margin product (8-10%) and Plumbing segment has increased from 63 to 69% which is high margin product (12-14%). Further, if we look at the revenues across players

Prince Pipes is a pure pipe industry play, as it has 100% of its revenue linked to the pipe industry.



Consolidation in the industry



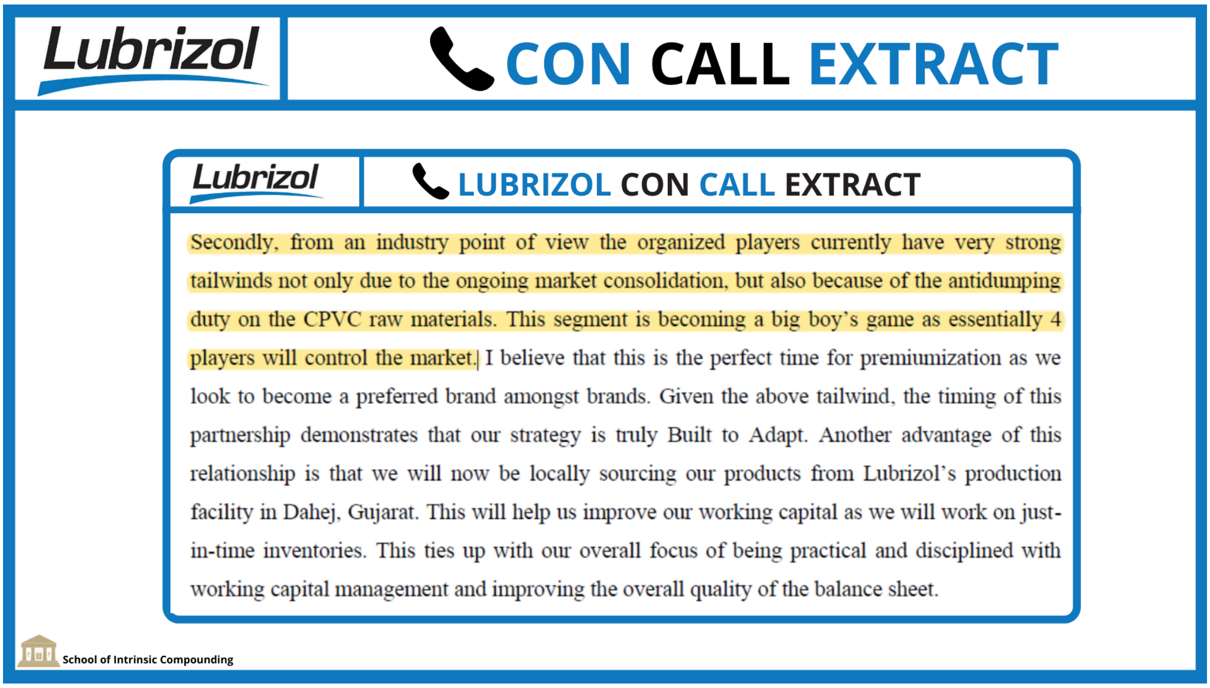
As capitalism is doing its work, we are seeing a wave of consolidation in the pipes industry. Inefficient and unorganised players losing market share to organised giants.

Especially in 2020, the main challenge was raw material sourcing and working capital management which became highly difficult during COVID. However, COVID is not the only reason for consolidation. It had started long back but got accelerated from the pandemic.

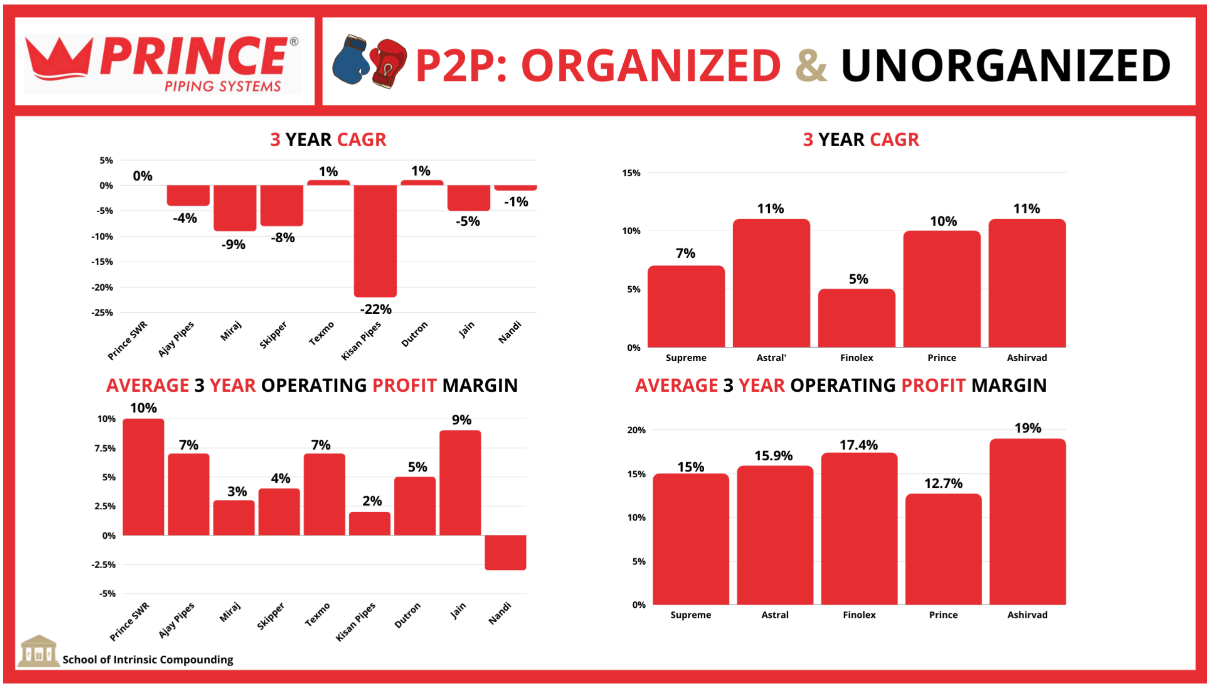
1. **GST:** As raw material generally comes from organised players, they have to comply with GST norms which lead to increase in prices directly hitting the margins of the end pipe industry players.
2. **NBFC Crisis:** As we had witnessed NBFC liquidity crisis around 2018, it had become difficult for many lenders to lend players which led many players to reduce their operations.
3. **Anti-Dumping Duty:** In 2020, the government brought in anti-dumping duty for five years against CPVC raw material being imported from China or Korea.

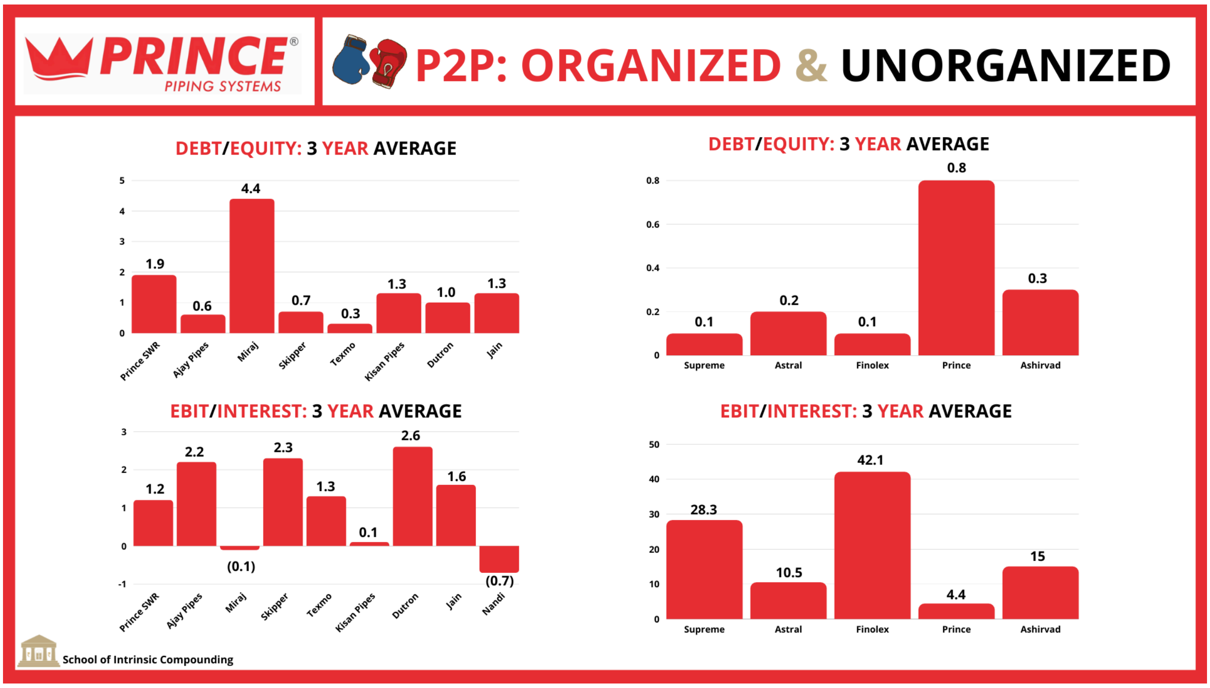
The market is consolidating not only by the way of unorganised segment share moving towards the organised but even within the organised players the big are getting bigger.

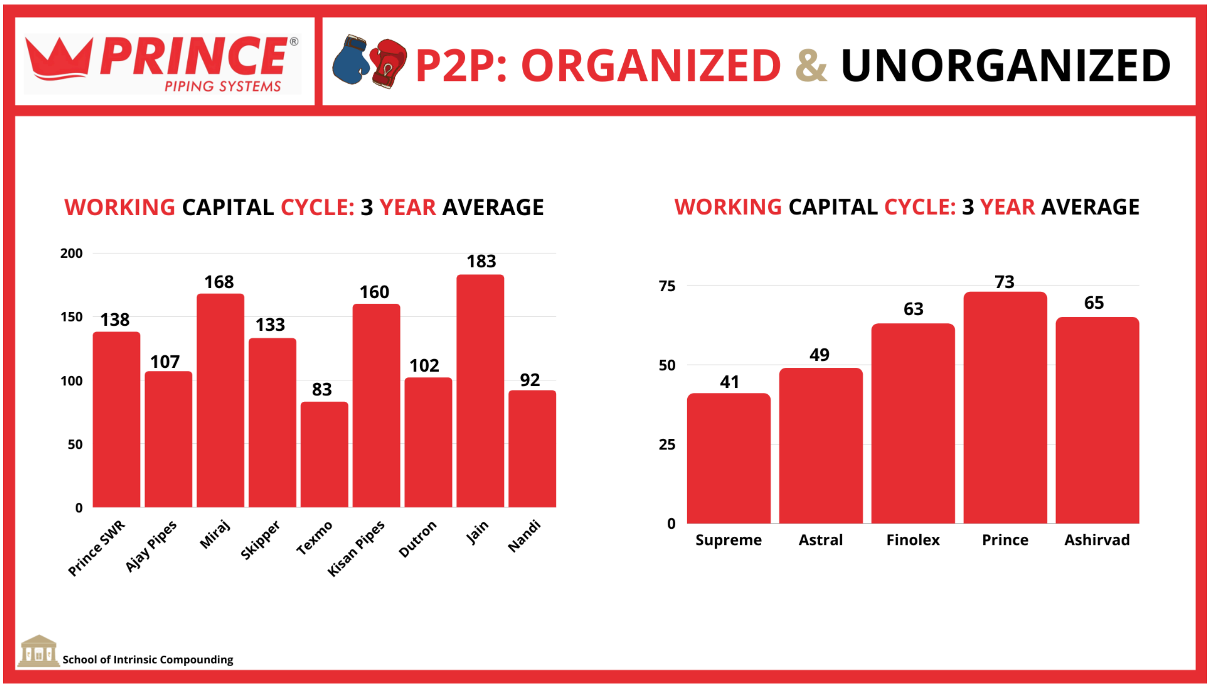
Management on consolidation:



Let's have a look at the **financial condition of the other players in the industry:**

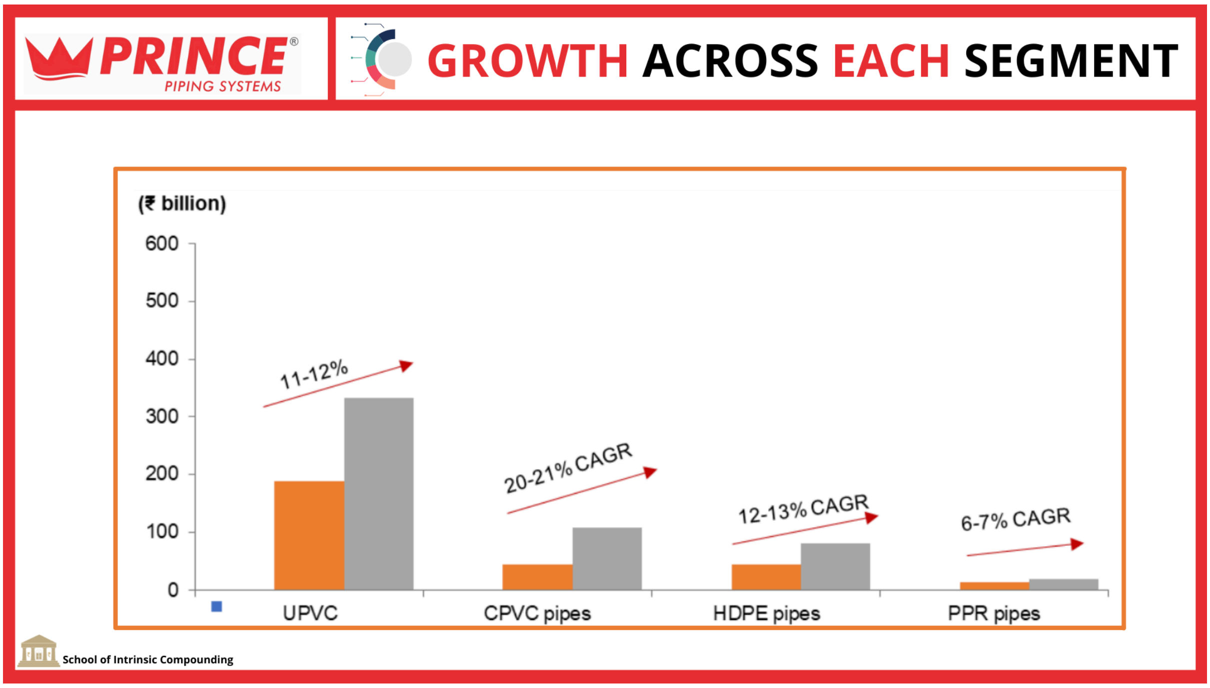


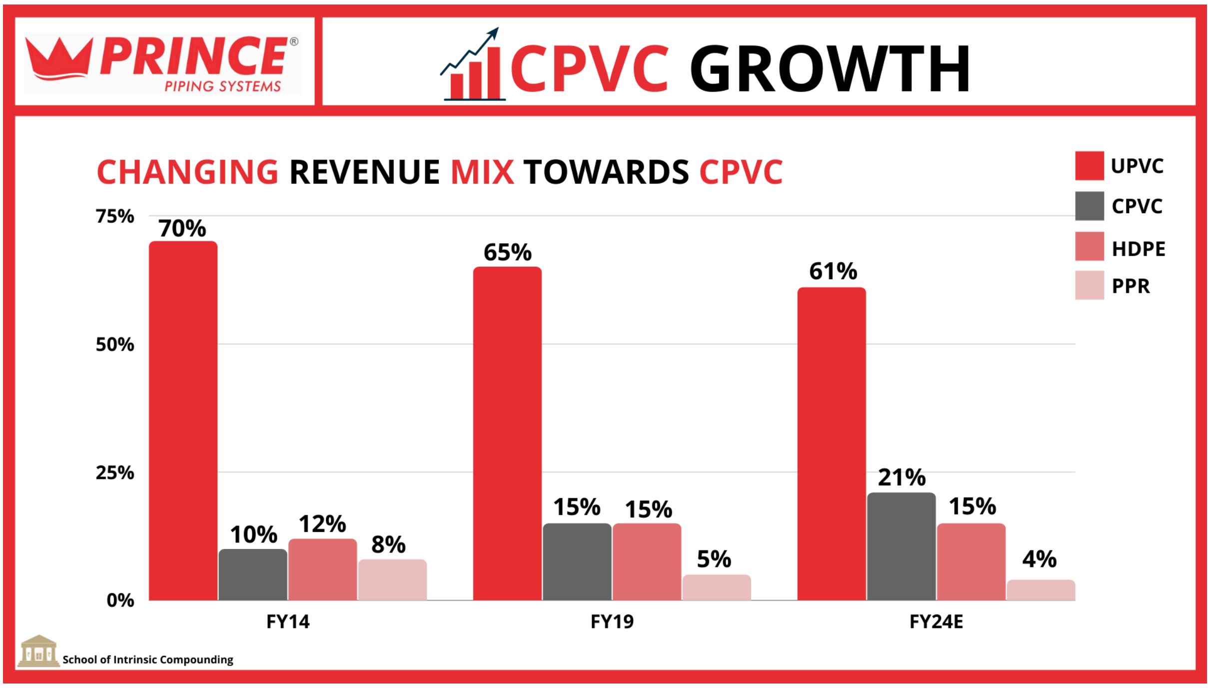




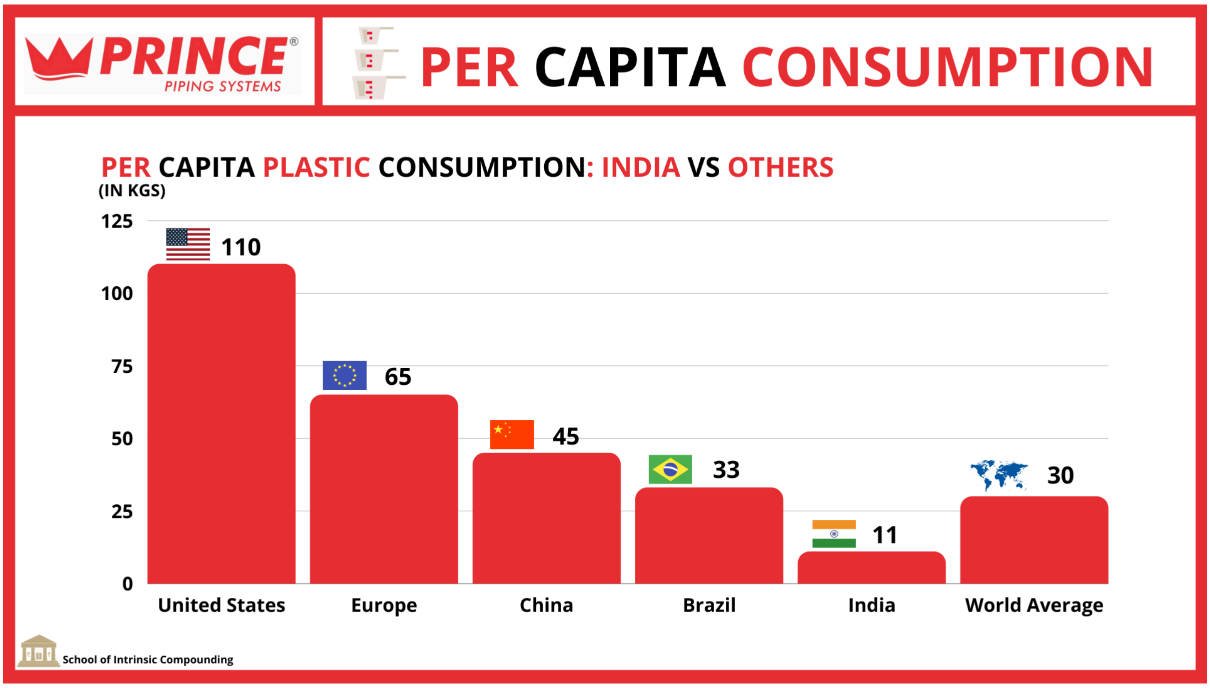
In the past most companies have been PVC players as the raw material sourcing is the cheapest there but now due to product superiority of CPVC pipes, the trend (which has been going on for a long time) is shifting towards premium products.

We have already discussed the benefits of CPVC pipes in our [Astral video](), hence will not touch upon it here.

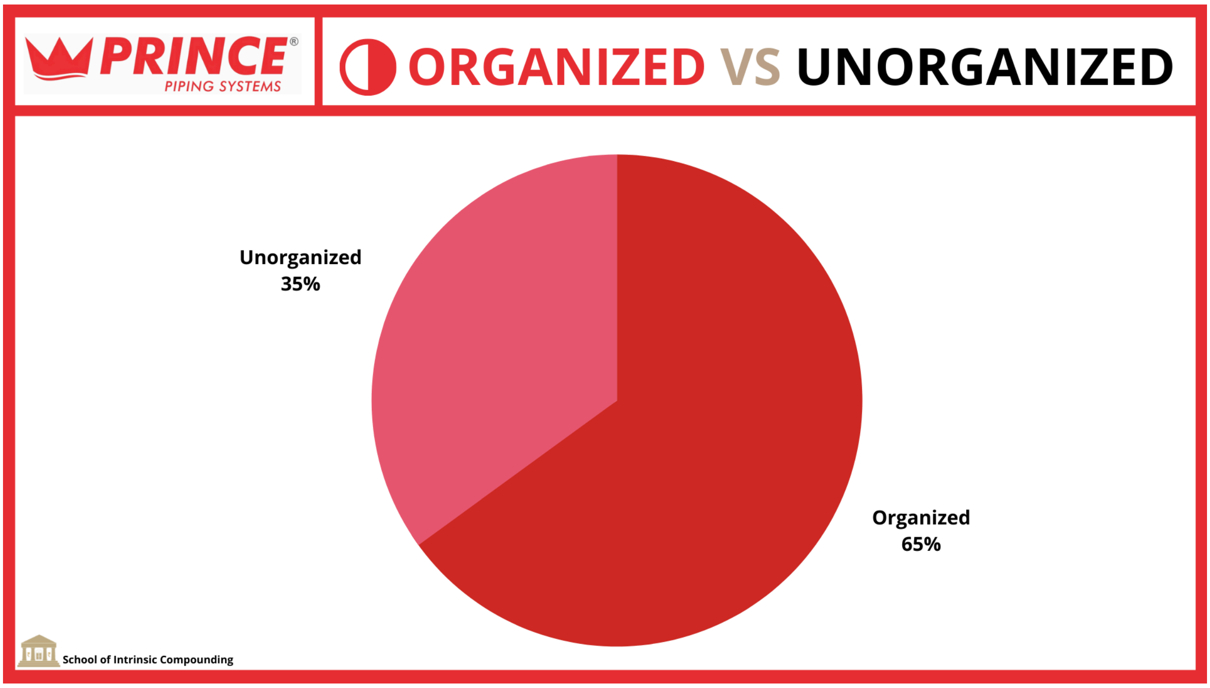




The Indian plastic pipes industry is expected to grow to Rs. 550 billion in FY24 from Rs. 300 billion in FY19. India has been a very low per capita plastic consumption country with the number being only at 11 kg whereas China stands at 45 kg and the global average is 30kg. This data shows that the industry is still under penetrated compared to other nations.

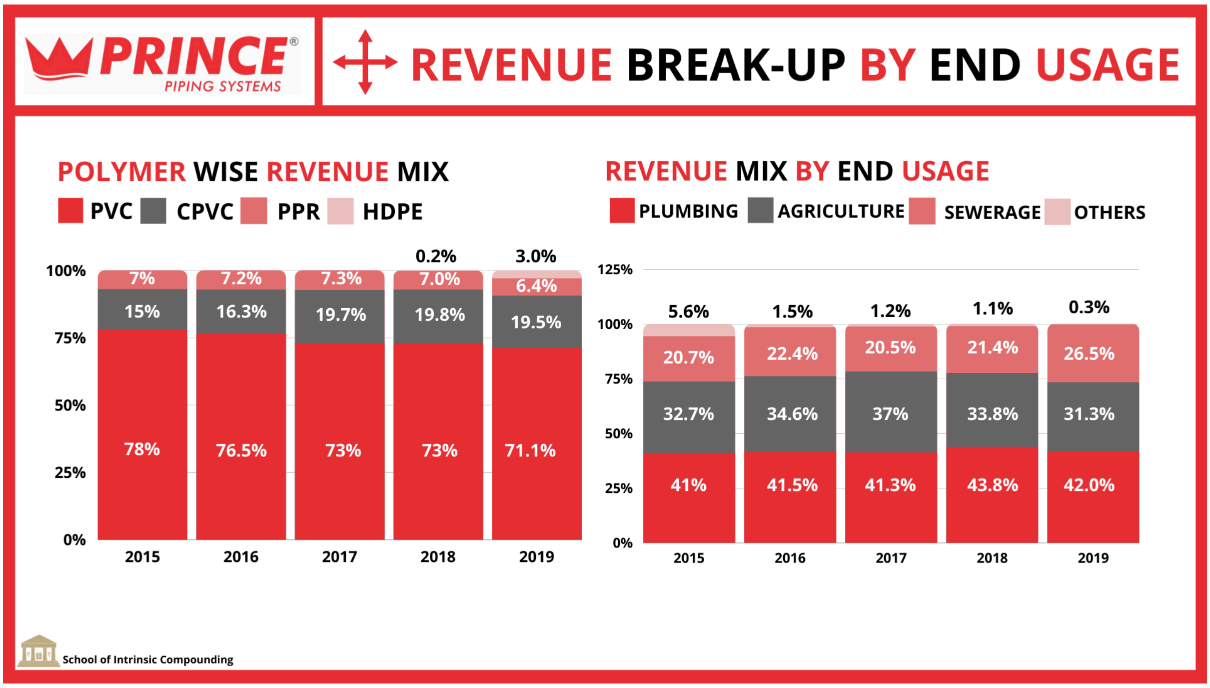


The question in mind would be that if the 65% market is already organised then where is the growth opportunity? It lies in the death of other players.



As the other organised players will keep on facing difficulty, they would lose market share.

Specially, the growth could come for **Prince** by change in product mix:



More than 70% revenue comes from PVC. As and when, CPVC pipes would start replacing and the CPVC industry would keep expanding, currently increasing at 20%.

Prince's mix will shift towards a high margin product which would be growing at more than 20%. CPVC pipes are generally 25-30% higher priced than PVC pipes with around 10% higher margins. Plumbing and drainage have a better value proposition than the agriculture segment and the focus of management is going to be on that.

Growth Triggers

Factory in Telangana

South India biggest market for CPVC pipes. So far, management did not focus much on South India as they did not have a manufacturing plant there. Haridwar and Athal plant used to cater for demand from South and used to take 4 to 15 days for delivery. As we know this industry is fright sensitive it is very important to reach the sale location to minimize cost. Initially management had given commentary that they would bring up the plant live by FY22 but this happened earlier than planned and the plant has now commenced its production in Q3FY21.

Now, the distributors in the south are going to get faster delivery leading them to have less inventory which will improve working capital requirement for the distributor and indirectly improve Prince's working capital. Fright cost used to be around 4-6% but now it would come to 2-3%.

Improving Corporate Governance

There were a lot of governance issues with **Prince Pipes**, but the promoter has finally woken up and started to care about minority shareholders by way of settling the previous mistakes.

1. **Pledge Shares**: Before IPO promoters had pledged around 35% of their holding but this was fixed within a few days of listing.
2. **Contingent Liability**: This remains an issue where the promoter group has a liability from another company where they are 20% partners in the business.

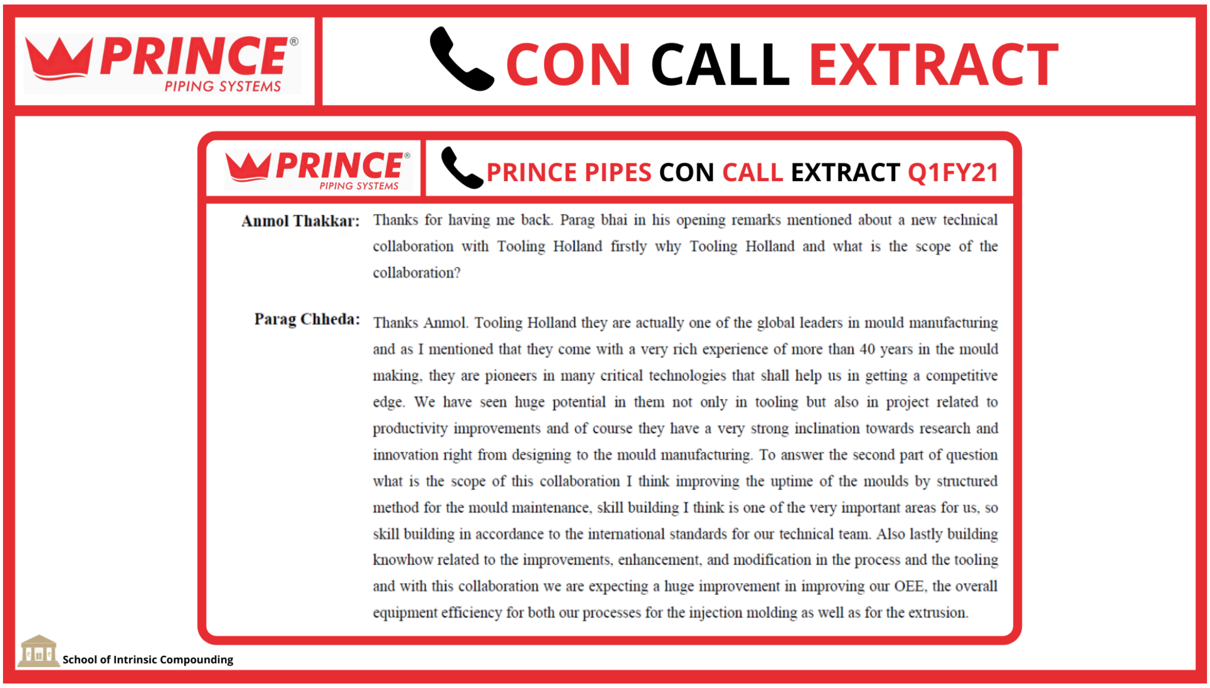
But the maximum liability which they can face would be 180cr as the claim is about 9000cr.

3. **Related Party Transaction(RPT):** Earlier management used to have RPT but this was for getting Special Additional Duty benefit which stopped after 2018.
4. **Real Estate properties**: Management had taken money for buying real estate properties in personal capacity using company’s money. But this issue has been resolved now, as the management did not complete the transaction and returned the money.
5. **Competition < Quality**: As the brothers were fighting with each other, to undercut each other they went on to compromise on the product quality to price competitively.

Technical collaboration with Tooling Holland

Prince has entered into a technical collaboration with **Tooling Hollan**d a European company who has around 40 years of experience in mould making and tooling. Now these things cannot be measured, all we know is that it is going to help them achieve “optimal product design and mould layout” leading to optimizing production costs.

Here is what management says about the collaboration:



PRINCE PIPING SYSTEMS

CON CALL EXTRACT

PRINCE PIPING SYSTEMS

PRINCE PIPES CON CALL EXTRACT Q1FY21

Anmol Thakkar: Thanks for having me back. Parag bhai in his opening remarks mentioned about a new technical collaboration with Tooling Holland firstly why Tooling Holland and what is the scope of the collaboration?

Parag Chheda: Thanks Anmol. Tooling Holland they are actually one of the global leaders in mould manufacturing and as I mentioned that they come with a very rich experience of more than 40 years in the mould making, they are pioneers in many critical technologies that shall help us in getting a competitive edge. We have seen huge potential in them not only in tooling but also in project related to productivity improvements and of course they have a very strong inclination towards research and innovation right from designing to the mould manufacturing. To answer the second part of question what is the scope of this collaboration I think improving the uptime of the moulds by structured method for the mould maintenance, skill building I think is one of the very important areas for us, so skill building in accordance to the international standards for our technical team. Also lastly building knowhow related to the improvements, enhancement, and modification in the process and the tooling and with this collaboration we are expecting a huge improvement in improving our OEE, the overall equipment efficiency for both our processes for the injection molding as well as for the extrusion.

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Growth in DWC pipes

This segment is yet to kick start its growth. Management is working with consultants and developers trying to convince the government to accept this product as it is much more superior in quality, economically better, and has a better lifespan than concrete pipes (RCP).

Double Wall Corrugated (DWC) pipes are pipes with full circular dual-wall cross-section, with an outer corrugated pipe wall, a smooth inner surface and are used in the sewerage and drainage industry. **Prince Pipes** have also received a patent for their product in DWC pipes.

70% of India's waste goes through open gutters today. Even though this number would make a perception of huge growth opportunity, that would be a very optimistic view as we all know how much importance the government gives to such projects.

Tank business

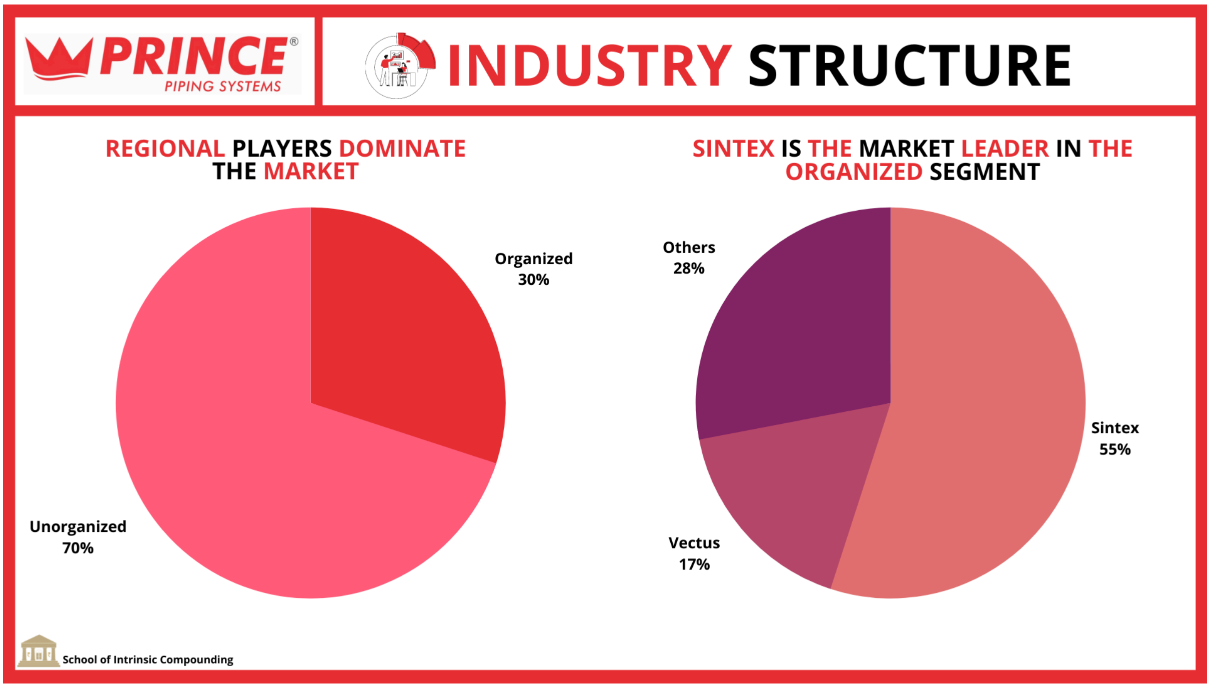
We have spoken about the *mental model, Adjacencies* and *Derivatives*, where we highlighted how businesses like **Facebook, ICICI Securities, Astral, Navin Fluorine,** etc have entered related business segments and benefited from that. A similar case seems to be happening with Prince here.

The tank business industry is around a market size of Rs. 4,000-6,000 cr. 70% of the industry is unorganised because this business is very freight cost sensitive. So, the best way to go about it is to be near to the point of sale and have an extensive distribution system epically focused toward rural areas as that is where the most potential lies.

Management is going to use their current distribution network which is highest among the peers and will focus on providing premium products rather than volume. In management's opinion, the current trend of selling 12–13-layer different tank products is just a marketing gimmick, and they believe there isn't any real difference after 2-3 layer products so they are going to stick to that.

This industry is lucrative for three reasons: It has a *cash and carry model* where money is received within 3 days, high margin of around 15-16%, and less working capital requirement.

We all might be aware that this industry is ruled by a player named **Sintex Industries**, if you do not know this just go to your roof and check which tank does your house have. **Sintex** rules with around 55% market share and the second player, **Vectus**, has around 17% market share, leading to a total more than 70% market under the control of two players.



As we mentioned in our video that profit pools keep on shifting like public to private banks, railway to air passengers, etc. similarly there is high probability that the water tank industry will see a shift of profit pool from these two dominant players to more efficient organised players like Prince, Astral, etc. As the current players are struggling in the industry as they are facing liquidity issues.

Further as we all know where the industry seems to attract competition we start coming in and the same has started happening in the tank business where we can see players like **Astral, Supreme,** etc. entering this segment.

Here is what management has to say about it:

PRINCE PIPING SYSTEMS

CON CALL EXTRACT

PRINCE PIPING SYSTEMS

PRINCE PIPES CON CALL EXTRACT Q2FY21

Nihar Chheda: Yes that's what I am saying. Today it's an extremely fragmented market where we have to compete with regional players, who don't give a consistently quality product and hence are able to undercut the organized manufacturer in terms of price by 15%-20%-25%. We welcome quality players; we welcome national level players to come into this business. We are anyway competing with them in pipes and can coexist and everyone is able to thrive. The market is a big ocean, and we are happy to compete with players who have a disciplined approach to quality and a disciplined approach to pricing, a disciplined approach to credit, that's okay. So we are not scared of competing with big players, I am scared of competing with smaller players.

School of Intrinsic Compounding

Government Initiatives

There are various government initiatives playing out in the sector like *"Nal se Jal,"* affordable housing, Union budget announcing around Rs. 50,000 cr. plan for the urban and rural water supply scheme, which is over 4 times the previous budget.

Here is what management has to say about it:

PRINCE PIPING SYSTEMS

CON CALL EXTRACT

PRINCE PIPING SYSTEMS

PRINCE PIPES CON CALL EXTRACT Q3FY21

Nihar Chheda: Before I get into specifics, I would like to say that this kind of government focus on the piping sector can potentially be a game changer. The government vision to provide piped water access across urban and rural households could genuinely accelerate volume growth opportunities in the coming quarters. See broadly the outlay for this project is expected to be around 1 lakh Crore, based on our experience in the past we understand that material cost tends to be around 8% to 12% of the total budget allocated, which means out of the one lakh Crore allocation potentially Rs. 8,000 Crore worth of piping would be required. Now let us assume a bare case scenario that only 30% of this takes place on ground, I think that is still puts us around Rs. 2,500 Crore worth of piping system requirement. Broadly today our industry size is around Rs. 30,000 Crore, so we believe that even in a worst-case scenario the addressable market size would increase by 7% to 8% only due to this Jal Jeevan mission across urban and rural India. Now, I understand that with sort of big picture

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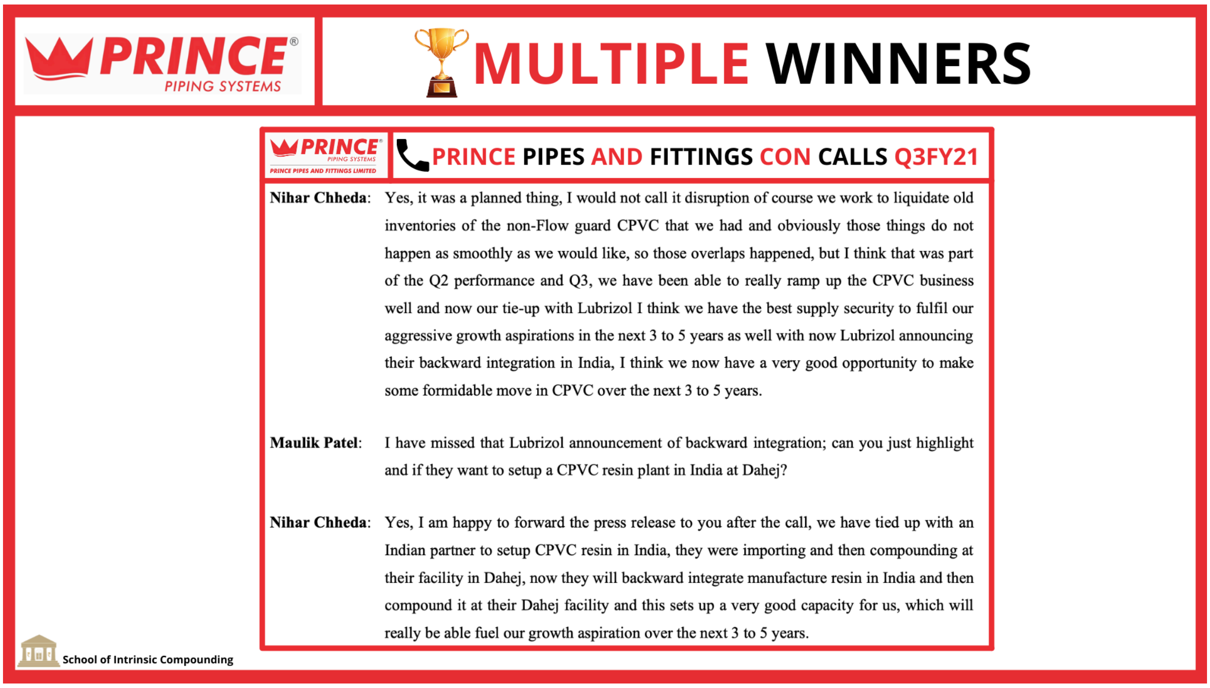
Lubrizol: Icing on cake



PRINCE PIPING SYSTEMS

MULTIPLE WINNERS

PRINCE PIPES AND FITTINGS CON CALLS Q3FY21

Nihar Chheda: Yes, it was a planned thing, I would not call it disruption of course we work to liquidate old inventories of the non-Flow guard CPVC that we had and obviously those things do not happen as smoothly as we would like, so those overlaps happened, but I think that was part of the Q2 performance and Q3, we have been able to really ramp up the CPVC business well and now our tie-up with Lubrizol I think we have the best supply security to fulfil our aggressive growth aspirations in the next 3 to 5 years as well with now Lubrizol announcing their backward integration in India, I think we now have a very good opportunity to make some formidable move in CPVC over the next 3 to 5 years.

Maulik Patel: I have missed that Lubrizol announcement of backward integration; can you just highlight and if they want to setup a CPVC resin plant in India at Dahej?

Nihar Chheda: Yes, I am happy to forward the press release to you after the call, we have tied up with an Indian partner to setup CPVC resin in India, they were importing and then compounding at their facility in Dahej, now they will backward integrate manufacture resin in India and then compound it at their Dahej facility and this sets up a very good capacity for us, which will really be able fuel our growth aspiration over the next 3 to 5 years.

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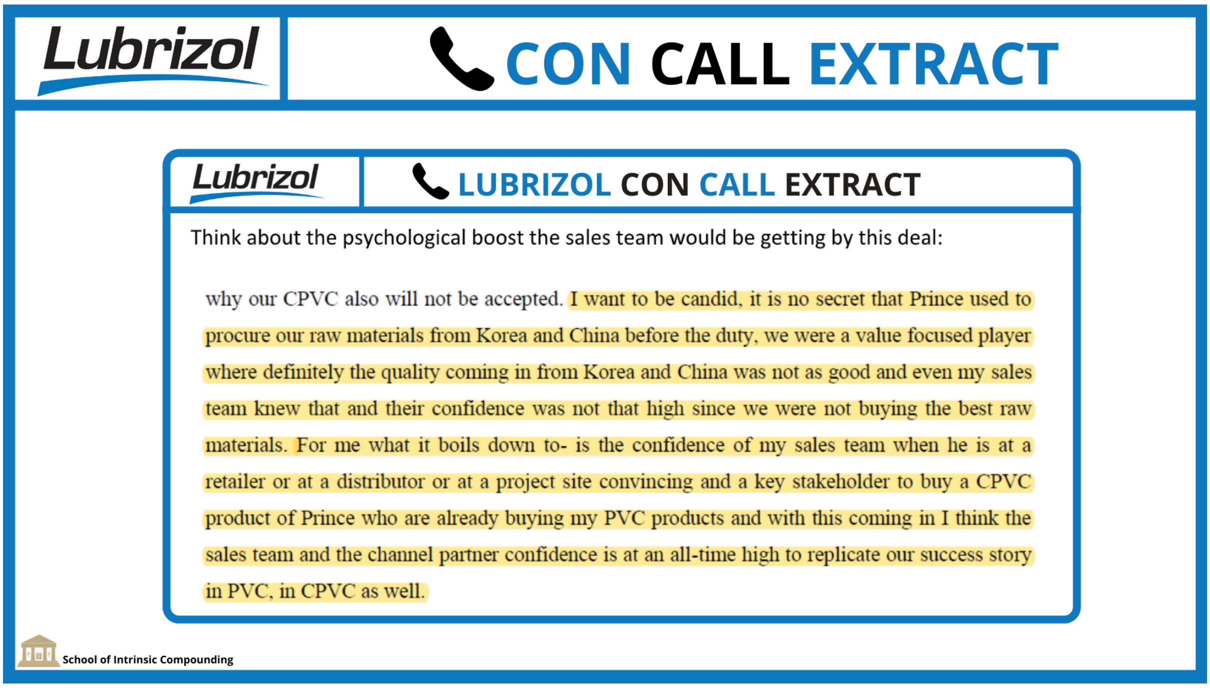
Tie up with **Lubrizol** has come as icing on the cake as the industry itself was growing in double digit growth with consolidation happening.

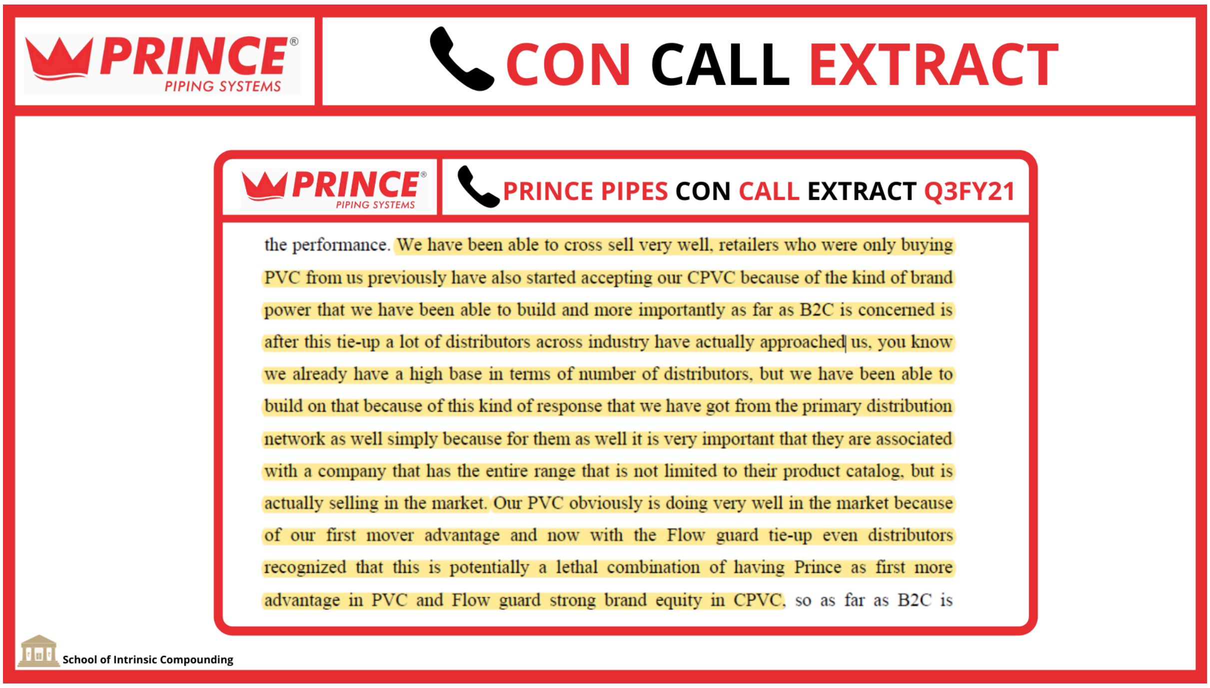
Lubrizol had signed their first deal in 1998 with **Astral Poly Technik** who brought in CPVC manufacturing in India. Further, they had also licensed their **FlowGuard** brand to **Ashirvad Pipes** (still valid), **Ajay Industrial Corporation**, and **Finolex**. They have a CPVC raw material plant at Dahej, Gujarat from where **Prince** & **Ashirvad** are supplied. This deal will not only give access to **FlowGuard** Plus but also with sales team and distributor training programs (efficiency of it cannot be measured).

1. **Ripple Effect:** Prince was already among the top brands in PVC pipes but now with FlowGuard coming in it is very easy for them to convince their distributor to cross-sell their CPVC pipes as the quality will be top-notch.

Think about the psychological boost the sales team would be getting by this deal:



The cross selling has already started seeing traction:



2. **Entry into B2B using the brand value of FlowGuard:**

   As per management, **FlowGuard** is the undisputed market leader in the B2B segment. With the **FlowGuard** name a company would get access to prestigious projects in locations like Mumbai, Gurgaon, Bengaluru, Hyderabad, Chennai, etc. There are many developers who go only for **FlowGuard** which itself talks about the quality of the product.

But it's not all good. There is a reason that the management never focused on the B2B segment, other than finding it difficult to enter. This segment is not very attractive in financial terms as it reduces the balance sheet quality as it demands higher working capital! Previously they have indirectly participated in this segment by selling to distributors who then sell it into a project. B2B is about relationships with a high gestation period and staying away from it could have been a wise decision.

Further this deal of sourcing raw material would come with increasing costs which is why it seems that the management wants to portray it as a premium product so as to extract most out of it.

All this will lead to margin expansion as this would lead to moving toward premium products.

Financials

P2P
COMPARISON
KEY FINANCIALS

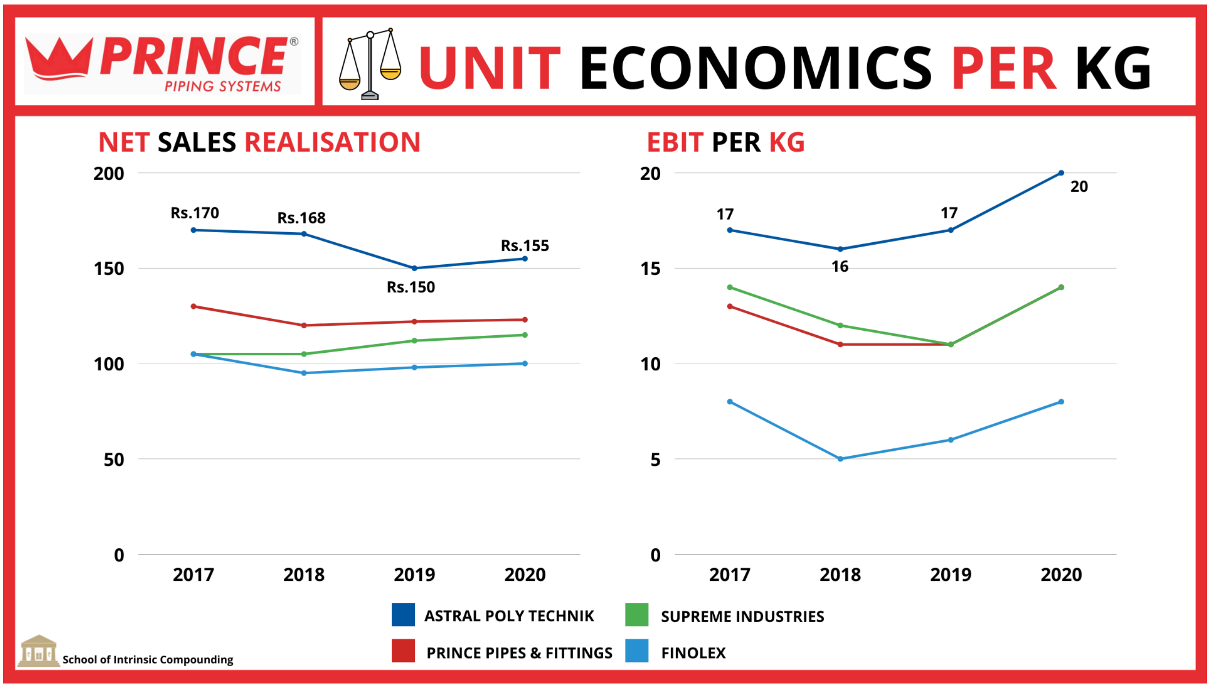
PRINCE
PIPING SYSTEMS

EBIT MARGINS

COMPANY	FY 20	FY 19	FY 18	FY 17	FY 16
PRINCE PIPES & FITTINGS	14%	9.3%	9.5%	10.4%	6.9%
SUPREME INDUSTRIES	13.3%	9.86%	11.5%	13.6%	10.3%
FINOLEX INDUSTRIES	15%	7.1%	5.8%	8%	8.8%
ASTRAL POLY TECHNIK	17%	12.8%	11.8%	11.2%	9.9%
ASHIRVAD PIPES	-	16%	18.1%	17.4%	12.4%
JAIN IRRIGATION	-	10.8%	10.2%	8.4%	8.6%

ROCE

COMPANY	FY 20	FY 19	FY 18	FY 17	FY 16
PRINCE PIPES & FITTINGS	14%	22.6%	20.8%	24.8%	14.8%
SUPREME INDUSTRIES	13.3%	32.7%	31%	35%	30.1%
FINOLEX INDUSTRIES	15%	20%	16.7%	24.1%	24.3%
ASTRAL POLY TECHNIK	17%	20.5%	18.6%	17.8%	15.5%
ASHIRVAD PIPES	-	33.8%	34.9%	37%	22.7%
JAIN IRRIGATION	-	9.7%	8.8%	8.2%	8.1%



Risks

1. **Prince** is currently the second brand who is using **FlowGuard**. So, there is no element of exclusivity.
2. Slowdowns in real estate or government initiatives could affect the company.
3. The raw material of their product comes from crude oil which itself is very volatile hence brings in commodity risk and often leads to inventory gains or losses.
4. **Anti-dumping duty:** There is a 5-year anti-dumping duty so this risk has been mitigated.
5. **Competition:** More players can enter the industry of CPVC pipes as the barrier to entry is not high.

Valuation

It is rare to find businesses which are present in an industry which is growing at 20% (CPVC segment). Therefore, as the industry itself seems interesting which can bring in multiple winners we could value Prince by peer-to-peer comparison.

PRINCE® PIPING SYSTEMS

VALUATION

PARTICULARS	PRINCE PIPES	ASTRAL	SUPREME
P/E RATIO	34.6	101	24.1
EV/EBITDA	19.9	61	16.3
PRICE/SALES	3.7	12.85	4
ROCE	28.7%	30%	41%

School of Intrinsic Compounding

It seems that **Prince Pipes** is also on a similar track compared with its peers but not in terms of *valuation*. As their product mix would shift towards CPVC products it would lead to improvement in margins due to it being a higher margin product and soon that would reflect in their valuations. So, why is it still undervalued? Major reason was governance which is now being resolved.

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