Twitter Thread by Mouzam



Mouzam
@mmali09

I had prepared these notes when choosing between #Princepipes and #Apollo since I already had mental facts why I didn't wanted a Big Player.

Thanks for your question & @soicfinance for retweet and greater reach.

Here is an interesting industry level■

■■Retweet if you liked it https://t.co/j23ogmdc3S



> There would be multiple winners right... How about comparison with other players... Other than Apollo... What makes it different and give some sort of edge over others... I mean does it have what it takes to be no 2 maybe... Ashirvad is pretty dominant too and its not listed
>
> — Harinder S Nanda (@harindersnanda) July 23, 2021

I will try to avoid redundancy from my earlier post in this thread. So, you may want to take a look at this one as well.

https://t.co/4tsBB8JOuI

The industry itself is growing at double digit CAGR. Great proxy to Real estate/Infra spending.

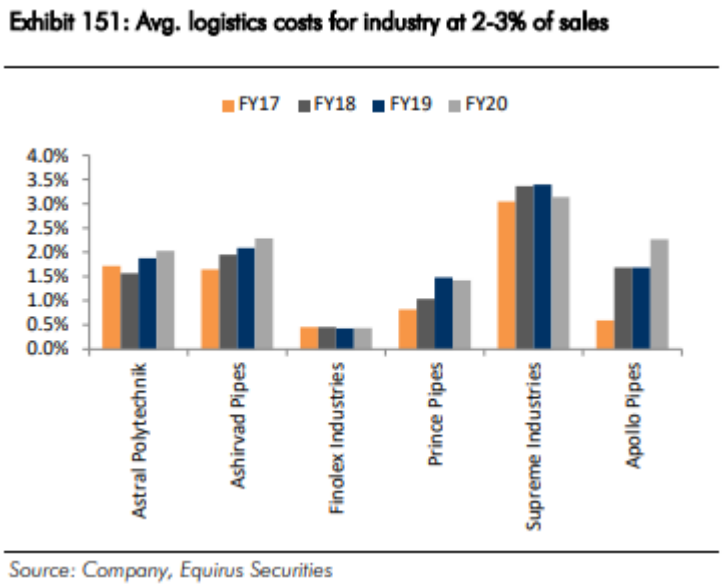
Attached some of my notes and observations from earlier FY21 concalls. (kindly also read latest filings)

Another great blog from #SOIC#PrincePipes #CPVC https://t.co/VnnsimpCOE pic.twitter.com/DF3gpcUXSe

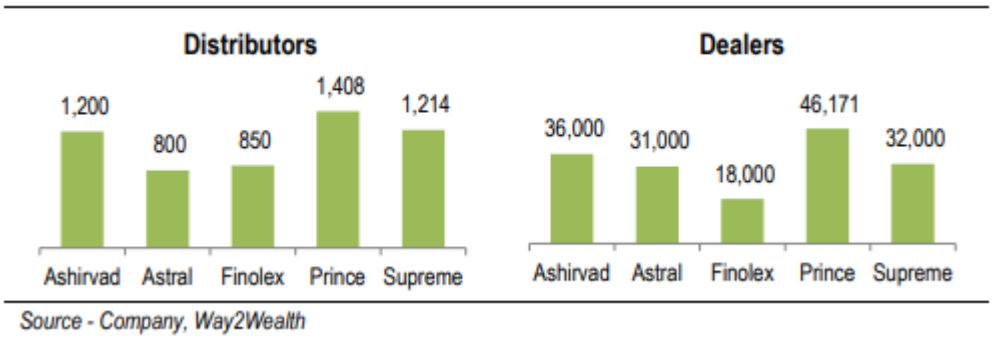
— Mouzam (@mmali09) July 23, 2021

1. Wide Manufacturing Base effect

Prince has a strong & growing manufacturing plants presence in the country which leads to one of the lowest freight cost in the industry. Finolex has the lowest cost most likely because of their backward integration into PVC resin.

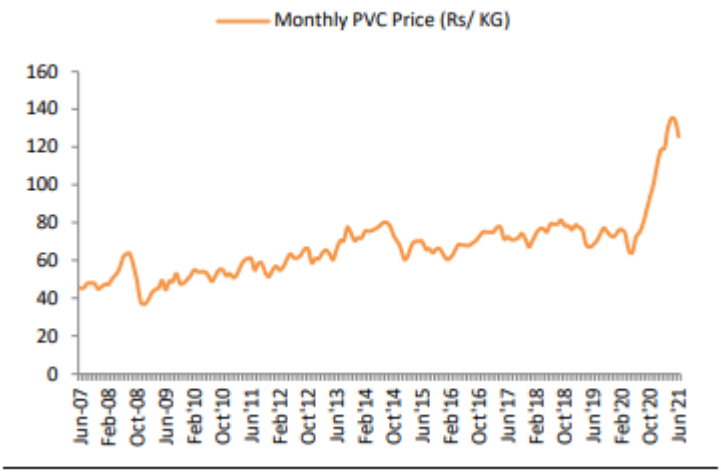


2 Distribution Network: Prince has highest no. of Dist. and Dealers among its peers.



3. Continuing on the high distributors reach, the industry has never seen such a surge in the PVC prices which has led to industry consolidation with organized players gaining market share. And the player with greater reach/product availability is likely benefit more.

Exhibit 22: Surge in PVC prices leads to market expansion, higher FY21 margins



Source: Company, Equirus Securities

4. Prince also has one of the highest no. of SKU's at 7,200 only next to Supreme (8,774).

5. Prince tie-up with Lubrizol is a huge differentiator for the brand and CPVC sales and is among the first choice among builders. The FlowGuard Plus brand enjoys good recall and acceptability leading to some pricing power

6. (Note: Currently Ashirvad & Prince have license to manufacture Lubrizol's "Flowguard" brand)

7. Since raw material i.e., PVC resin has a high volatility it is imperative to ensure stable supply (note: India majorly depends on imports). Prince has a stable supply of good quality PVC resin from Lubrizol which they produce domestically. Lubrizol in a JV with Grasim

Lubrizol Partners with Grasim

In 2020, Lubrizol and Grasim Industries Limited, entered into a definitive agreement to manufacture and supply CPVC resin in India by building the largest ever resin plant in Vilayat, Gujarat. It's a project in progress but once commissioned, this near 100,000 metric-ton state-of-the-art CPVC plant, will be the largest single-site capacity for CPVC resin production globally. The project will take part in two phases, with the first phase of production expected to be operational in late 2022.

8. is increasing its capacity to become the largest producer in the country and with this Lubrizol becomes the only company in India with end-to-end CPVC capability. Whereas other players may be depended on imports and face supply disruptions.

Exhibit 39: Tie-up of bigger brands for supply of CPVC resin with international players

Indian Company	Foreign Partner
Ashirvad Pipes	Lubrizol
Astral Pipes	Sekisui
Finolex Industries	Multiple Sources
Prince Pipes	Lubrizol
Supreme Industries	Kaneka Corporation
Apollo Pipes	Largely Kem One

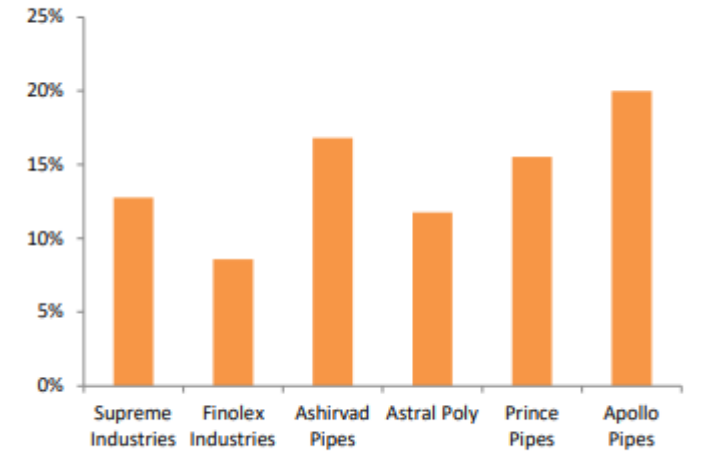
Source: Industry, Equirus Securities

Astral buys CPVC resins from multiple sources in addition to Sekisui
Apollo pipes buys CPVC resins from 1 additional sources in addition to Kem One

9. Prince also differentiates itself by collaborating with “Tooling Holland”, a global leader in the Intl. plastic injection molding based in Netherlands for its technical knowhow which helps the co. offer high quality products along with greater productivity and cost efficiency.

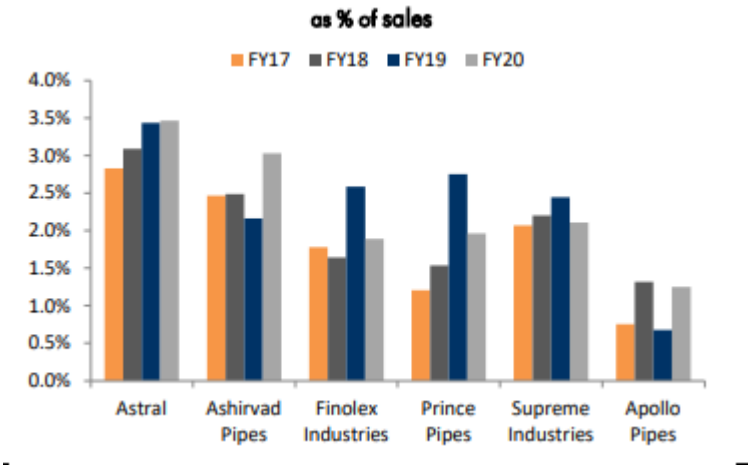
10. Prince and Apollo has been growing at industry leading pace along with Astral and Ashirvad (Low base)

Exhibit 18: Prince Pipes and Apollo Pipes have seen strongest revenue CAGR (off a low base) over FY16-FY21

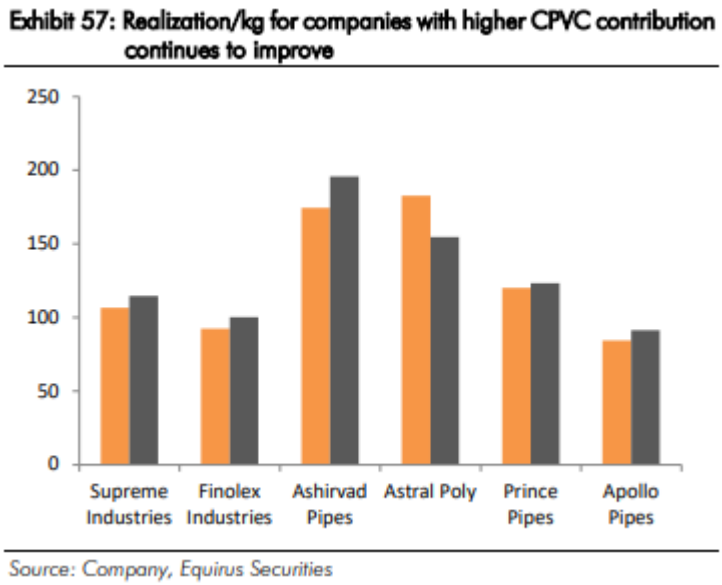


** Ashirvad Pipes numbers is for FY15-20.*
Source: Company, Equirus Securities

11. Here is the graph showing the Ad spend as a % of sales. Prince has been getting more aggressive and the management says that they see it as an investment and not expense.



12. Looking at the realization/kg - Even here it is only behind Ashirvad & Astral



13. This comparative analysis of Key players provides concise and great information. Prince has 100% rev. from pipes & fittings. Overall its very competitive against Top Leaders.

Exhibit 44: Comparative analysis of key players

Particulars	Ashirvad Pipes*	Astral Pipes	Finolex Industries	Prince Pipes	Supreme Industries	Apollo Pipes	Jain Irrigation	Kisan Mouldings
Capacity in MT	2,00,000	2,57,946	3,70,000	2,59,000	5,09,000	1,18,000	NA	50,000
Sales Volume in MT	1,49,532	1,36,590	2,12,060	1,38,289	2,94,357	47,333	NA	NA
Utilization (%)	74.8%	53.0%	57.3%	53.4%	57.8%	40.1%	NA	NA
No. of Manufacturing Facilities	2	7	3	7	8	4	NA	5
Manufacturing Location	Karnataka and Rajasthan	Gujarat, Tamil Nadu, Rajasthan, Maharashtra & Uttarakhand	Maharashtra and Gujarat	Maharashtra, Tamil Nadu, Uttarakhand, Dadra & Nagar Haveli, Rajasthan and Telangana	Maharashtra, Telangana, Uttar Pradesh, Madhya Pradesh and West Bengal	Uttar Pradesh, Chhattisgarh, Gujarat, Karnataka	NA	Maharashtra, Madhya Pradesh, Dadra & Nagar Haveli
FY21 Pipes Revenues (Rs bn)	29	25	26	21	41	5	11	2
FY16-21 Pipes Revenue CAGR	16%	12%	5%	16%	13%	20%	-7%	-15%
% of revenues from Plastic pipes & fittings	100%	76%	76%	100%	65%	90%	20%	NA
Other revenue contributors in FY21	0%	24%	24%	0%	35%	10%	80%	NA
Other product segment	None	Adhesives	PVC resins	None	Packaging, Industrials and Consumer	Plastic Bath Fittings & storage tanks	Hitech Agri Inputs, Agro and Others	Irrigation systems, Moulded Furniture
Mkt. share in overall industry	9%	6%	7%	5%	10%	1%	3%	0.5%
Mkt. share in organized industry	13%	9%	10%	8%	15%	2%	4%	1%
No. of Distributors	1,100	850	1,000	1,500	1,368	600	NA	100
Dealers/Retail Touch Points	53,000	33,000	21,000	46,171	35,900	20,000	NA	3,000
SKUs	NA	NA	2,100	7,200	8,774	1,500	NA	NA
Warehouses/Depots	11	12	2	11	37	NA	NA	NA
Dominant Presence	Residential Plumbing	Residential Plumbing	In Agriculture	1/3rd presence in Agriculture 2/3rd presence in Plumbing + SWR	Has strong presence in both Residential plumbing and Irrigation	Has presence in both Residential plumbing and Irrigation	Caters to agricultural, industrial and infrastructural customers	NA
Product Portfolio	UPVC, SWR, CPVC pipes and fittings	UPVC, CPVC, HDPE pipes and fittings, Water Tanks	UPVC, CPVC pipes and fittings, Water Tanks	UPVC, CPVC, HDPE, PPR pipes and fittings, Water Tanks	UPVC, CPVC, HDPE, PPR pipes and fittings, Water Tanks	UPVC, CPVC, HDPE, PPR pipes and fittings, Water Tanks	UPVC, CPVC, HDPE, PE pipes and fittings	CPVC, UPVC & SWR pipes
Irrigation: Residential Mix	10%:90%	10%:90%	63%:37%	31%:69%	#25%:75%	47%:53%	NA	NA
@Ad spending (% of sales)	2-3% of sales	3-4% of sales	1-2% of sales	2-3% of sales	2-3% of sales	1-2% of sales	0.5-1% of sales	NA
Mkt. share (%)	30%+ in CPVC pipes	20-25% in CPVC pipes	14% Agri pipes	5-6% in overall pipes mkt.	10% in overall pipes mkt.	1.5% in overall pipes mkt.	2.5% in overall pipes mkt.	0.5% in overall pipes mkt.
Brand Ambassador	None	Pipes: Ranveer Singh Adhesives: Varun Dhawan	None	Akshay Kumar	None	Under planning	None	None

** Ashirvad Pipes numbers are for FY20, # As per our understanding, @ Ad spending are based on FY20 numbers*

Source: Industry

14. After qualitative & quantitative analysis last comes valuations. Since its established that the pipes market is growing at 11-12% CAGR FY21-25E.

The idea was to look for a company offering value and faster growth prospects.

15. And here I found Prince Pipes and Apollo Pipes giving better value against the no brainer Astral.

And given the aggressive growth intent, management execution along with improving corporate governance, manufacturing capabilities and also considering the strong OCF post

16. Telangana plant (52K TPA with Asset TO 2.5x-3x) I find Prince Pipes more appealing which ticks all the boxes as noticed in above facts. Additionally, it is introducing premium products and increasing higher margin products capacity.

17. Prince is now the 5th largest organized player and I can see it breaking into Top 4. However, displacing Ashirvad Pipes or Astral is not the intention nor its even in the equation. And one doesn't even need to aim for that given the overall

expected industry growth.

18. P.S – Others may find the Apollo brand more appealing and there is no right or wrong here. Even I admire and respect the management.

Few other things to note:
- Supreme Ind: I find it too diversified
- Finolex: Backward integration into commodity impacts margins adversely

19. Prince is trying to expand in East region with a unique asset light strategy via outsourcing mainly for non-pressure PVC pipes. However, in Mid-Long term it will look to have its own capabilities in the region.

20. I find all key attributes for success tick for
#PrincePipes■

- Pricing Power■■
- Differentiated products■■
- Decentralized Manufacturing■■
- Stable Good quality RM (PVC) supply■■
- Strong Distribution Network■■

Disclosure: I am invested into Prince Pipes from lower levels and may have a biased view.

