Paradeep Phosphates Ltd

Recommendation	Subscribe for Long Term
Price Band	Rs 39-42
Bidding Date	17-19 May
Book Running Lead Manager	Axis, ICICI Sec., JM Fin, SBI Caps
Registrar	Link Intime
Sector	Fertilizers

Minimum Retail Application – Details at Cut off Price	
Number of Shares	350
Application Money	14700
Discount to retail	NIL
Payment Mode	ASBA, UPI

Consolidated Financials (Rs Cr)	FY20	FY21
Total Income	4,193	5,165
EBITDA	460	542
PAT	193	223

Valuations*	Lower Band	Upper Band
Market Cap (Rs cr)	3177	3421
EPS	2.7	2.7
BV/share	27	27
P/BV	1.5	1.6
PE	8.8	9.4

**FY21 numbers, diluted equity*

Post Issue Shareholding Pattern	
Promoters	56.1%
Public	43.9%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity Capital (Rs cr)	814.5
Issue Size (Rs cr)	39-42
Face Value (Rs)	10

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BACKGROUND

Company Overview

Paradeep Phosphates Ltd (PPL) is the second largest private sector manufacturer of non-urea fertilizers in India and the second largest private sector manufacturer in terms of Di-Ammonium Phosphate ("DAP") volume sales for the nine months ended December 31, 2021. It is primarily engaged in manufacturing, trading, distribution and sales of a variety of complex fertilizers such as DAP, three grades of Nitrogen-Phosphorus-Potassium ("NPK") (namely NPK-10, NPK-12 and NP-20), Zypmite, Phospho-gypsum and Hydroflorosilicic Acid ("HFSA"). It is also engaged in sales of Muriate of Potash ("MOP"), Ammonia, Speciality Plant Nutrients ("SPN") and City compost. Company's fertilizers are marketed under some of the key brand names in the market 'Jai Kisaan – Navratna' and 'Navratna'.

Objects of the Issue

The issue of Rs 1502 cr includes Rs 498 cr offer for sale and Rs 1004 cr fresh issue which would be used for (a) part financing the acquisition of the Goa facility (b) repayment of certain borrowings

Investment Rationale

- **Favorable Indian Fertilizer Industry Dynamics**
- **Effective raw material sourcing though backward integration and long term supply contracts**
- **Enhancing Production Capabilities**
- **Continue to improve cost efficiency and productivity**

Valuation and Recommendation

PPL is the second largest private sector manufacturer of non-urea fertilizers in India and the second largest private sector manufacturer in terms of Di-Ammonium Phosphate ("DAP") volume sales. It has established a track record of delivering robust financial performance. PPL has over the years is able to manage to create a strong brand recognition and develop a vast distribution network. With addition of Goa plant, it would be able to strengthen its reach as well as would be able to have better backward integration, thereby making it a strong player in the industry. The additional capacity which is getting adding on would benefit the company on immediate basis hence we recommend "Subscribe for Long Term".

Financial Snapshot	FY19	FY20	FY21	9MFY22
Revenues	4358	4193	5165	5960
*%growth**		*-4%*	*23%*	
EBIDTA	442	460	542	579
% margins	*10.1%*	*11.0%*	*10.5%*	*9.7%*
Adj. PAT	159	193	223	363
% margins	*3.6%*	*4.6%*	*4.3%*	*6.1%*
EV/EBIDTA @ Rs 42			10.5	7.2
P/E @ Rs 42			15.3	7.1
EV/Sales @ Rs 42			1.1	0.7

*Annualised

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PPL was incorporated in 1981. Zuari Maroc Phosphates Private Limited ("ZMPPL"), a joint venture of Zuari Agro Chemicals Limited ("ZACL") and OCP Group S.A. ("OCP"), currently holds 80.45% of the equity share capital of the Company, with the balance being held by the Government of India.

The manufacturing facility is located in Paradeep, Odisha and includes a DAP and NPK production facility, a Sulphuric acid production plant and a Phosphoric acid production plant. It utilizea Sulphuric and Phosphoric acids for manufacturing DAP and NPK. The integrated business model has been critical to company's success and a differentiating factor from the competitors and provides the ability to drive profitability, optimize capital efficiency.

On March 1, 2021, the Company entered into a business transfer agreement with ZACL for the purchase of its fertilizer plant in Goa as a going concern on a slump sale basis, for a total consideration of USD 280 million or ~ Rs 2052.3 cr. Upon the completion of the Goa Transaction, the Company will acquire the business of developing, manufacturing and trading of urea and NPK products carried out at the Goa Facility.

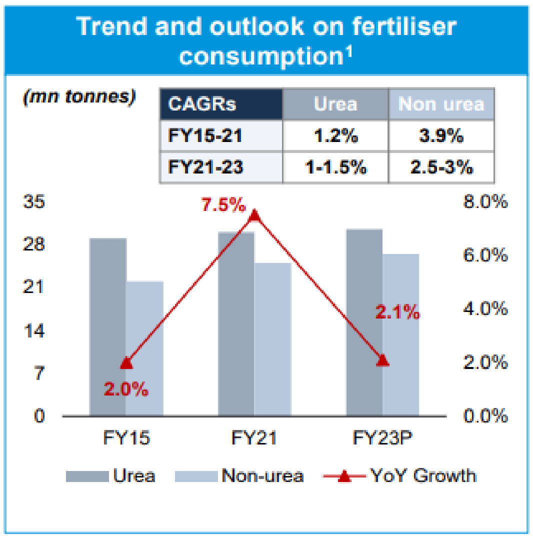
The company currently has a capacity of 1.2mn T of phosphoric fertilizer at the end of 31st March 2021 and is in process of increasing it to 1.8mnT which was expected to start in May 2022. The Goa Plant is having 0.8mnT capacity of phosphoric Fertilizer and 0.4mnT of Urea.

Investment Rationale

Favorable Indian Fertilizer Industry Dynamics

Due to certain factors such as increase in crop intensity, increase in per capita food consumption and dietary changes, per capita rise in income and ease of credit availability and high subsidy support from the Government, Indian Fertilizer industry is expected to continue to witness growth.

The usage of Urea has been prominent in the country due to lack of awareness among farmers about the benefits of NPK and higher subsidy on Urea which limits the price of it. Going ahead, the “P” ratio is expected to improve.

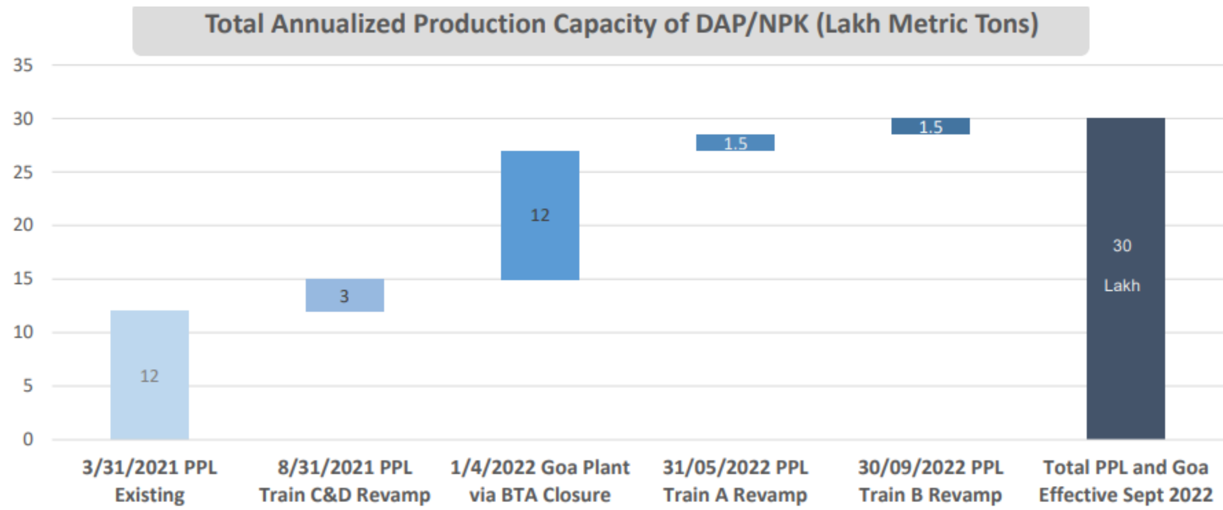


Effective raw material sourcing though backward integration and long term supply contracts

Company’s primary raw materials include Phosphate Rock, Phosphoric acid, Ammonia, Sulphur and MOP. It has backward integrated its manufacturing process by producing the two of the key raw materials - Phosphoric acid and Sulphuric acid. Further, in order to ensure a stable supply of the most important raw material, Phosphate Rock, the company has entered into a long term supply agreement with OCP for the procurement of Phosphate Rock. The company has also entered into two long-term supply agreements for the procurement of Ammonia. These agreements provide long-term raw material security, enhances the ability to benefit from increasing economies of scale with stronger purchasing power for other raw materials, thereby maintaining a competitive cost structure. PPL has also entered into a supply agreement with ONGC for the procurement of Sulphur. Paradeep also has two captive power units of 16 MW each.

Enhancing Production Capabilities

With an aim to capitalize on the increasing demand for fertilizers in India and to grow its market share in the fertilizer industry in India, in the recent years, the company has taken a number of measures to enhance its production capacities. Further, pursuant to the completion of the Goa Transaction, it will gain access to additional product mix, resulting in a more diversified product portfolio.



As on 31st March 2021, the company had capacity of 12 lakh MT and is adding 6 lakh MT through revamping. In addition, acquisition of Goa plant would add 12 lakh MT, taking the total capacity of the company to 30 lakh MT by Sept'22. This would add benefit on immediate terms as the capacity is readily available,

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Continue to improve cost efficiency and productivity

In recent years, the company has taken a number of measures to enable its operational efficiency. It has increased its annual production of Sulphuric acid through the installation of a new acid plant which began operating in March, 2016. It is currently in the process of increasing the annual granulation capacity of its DAP and NPK plant to 1.8 million MT per annum and this expansion is expected to be completed by May 2022. It also intends to retrofit a new Phosphoric acid production plant to increase its annual production by 120,000 MT and also intend to install a new evaporator to increase production of strong Phosphoric acid by 116,000 MT. These measures are expected to (i) increase its production of DAP and NPK fertilizers as well as Phosphoric acid; and (ii) reduce its reliance on external suppliers of Phosphoric acid. This will increase its profitability and operational efficiency as well as reduce raw material cost and logistics cost. Further, upon acquisition of the Goa Facility, PPL will gain access to its Ammonia production plant, Urea production plant and combined NPK production plant.

PPL has increased the annual production of Sulphuric acid by 529,470 MT through the installation of a new acid plant, with commercial operations starting March 2016. It has also added a 23 MW power plant to increase capacity which started supplying power in March, 2016, resulting in a total of 55MW of power capacity (combined with its two captive power units of 16 MW each)

PPL is repaying part dent from the IPO funds which would reduce its finance costs and leverage.

Risks and Concerns

1. **Business is subject to climatic conditions:** The business is dependent on the performance of the agricultural sector. The performance of the agricultural sector and consequently the demand for the fertilizers is dependent on area under cultivation, soil quality, climatic conditions including rains and adequacy of monsoon, adequacy of water supply, crop prices, and availability of credit to farmers which are beyond the company's control. Further, the demand for fertilizers is dependent on the cropping pattern which may vary year on year for the major crops. Any reduction in area under cultivation, adverse cropping pattern, climatic conditions, erratic or inadequate monsoon and consequent scarcity of water or other developments affecting the performance of agricultural sector, may adversely affect the business.
2. **Highly Regulated:** Subsidies provided by the Government of India are still an important point of the business of any Indian fertilizer company. Any. changes in Government policies relating to the agriculture sector such as the reduction of Government expenditure towards agriculture, the withdrawal of or changes in incentives and subsidies provided to farmers, the withdrawal of freight subsidies, export restrictions on crops, adverse changes in commodity prices or minimum support prices could affect the ability of farmers to spend on fertilizers, which in turn could adversely affect the operations.
3. **Timely payment of subsidy:** Subsidy receivable from the government constitutes ~30-40% of overall revenues of the company. Further, the number of days taken by the company to receive the subsidy amount was 60 days in 9MFY22; however it had gone as high as 108 days in the recent past. Delay in receipt of subsidy puts pressure on the cash position of the company and compels the company to rely on external debt to run the business smoothly which affects the profitability as well as overall valuations of the sector.

Valuation and Recommendation

Over the next five years, DAP and NPK is expected to lead the growth of the Phosphatic fertilizers segment along with complex fertilizers as India's production of crops such as fruits and vegetables, sugarcane and cotton witness a higher growth compared to the past.

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	Coromandel			Chambal			Deepak Fert.			Paradeep		
	FY20	**FY21**	**9MFY22**	**FY20**	**FY21**	**9MFY22**	**FY20**	**FY21**	**9MFY22**	**FY20**	**FY21**	**9MFY22**
Revenue - Rs cr	13137	14213	14885	12206	12719	12761	4685	5808	5651	4193	5165	5960
Growth	*-1%*	*8%*	*31%*	*21%*	*4%*	*15%*	*-31%*	*24%*	*33%*	*-4%*	*23%*	
EBITDA margins	13%	14%	12%	16%	19%	15%	10%	16%	15%	11%	10%	10%
PBT Margins	10%	13%	11%	10%	15%	13%	2%	10%	10%	5%	7%	8%
PAT Margins	8%	9%	8%	9%	11%	10%	2%	7%	7%	5%	4%	6%
ROE	24.7%	25.8%		32.7%	26.9%		4.0%	14.5%		10.6%	12.2%	
PE	25	20	28	12	10	14	75	16	22	18	15	7
EV/Sales	2.0	1.8	1.3	1.3	1.3	0.9	1.8	1.4	1.1	1.0	0.8	0.5
EV/EBITDA	14.9	12.8	10.9	8.4	6.5	6.3	17.9	8.7	7.3	9.1	7.7	5.4

FINANCIALS

P&L (Rs. Cr)	FY19	FY20	FY21	9MFY22
Net Revenue	**4,358**	**4,193**	**5,165**	**5,960**
% Growth		*-4%*	*23%*	
COGS	3,124	2,944	3,871	4,703
% of Revenues	*71.7%*	*70.2%*	*75.0%*	*78.9%*
Gross Profit %	*28.3%*	*29.8%*	*25.0%*	*21.1%*
Employee Cost	131	132	139	100
% of Revenues	*3.0%*	*3.1%*	*2.7%*	*1.7%*
Other expenses	661	657	612	578
% of Revenues	*15.2%*	*15.7%*	*11.9%*	*9.7%*
EBITDA	**442**	**460**	**542**	**579**
EBITDA Margin	***10.1%***	***11.0%***	***10.5%***	***9.7%***
Depreciation	70	72	83	67
Other Income	39	35	19	14
Interest	159	192	111	43
Share of PAT (Invst)	(0)	(1)	(0)	1
Exceptional gain				
PBT	**251**	**230**	**367**	**483**
Tax	92	36	143	120
Tax rate	*37%*	*16%*	*39%*	*25%*
PAT	**159**	**193**	**223**	**363**
% Growth				
EPS (Post Issue)	**2.0**	**2.4**	**2.7**	**4.5**

Performance Ratios	FY19	FY20	FY21	9MFY22
EBITDA Margin (%)	10.1%	11.0%	10.5%	9.7%
PAT Margin (%)	3.6%	4.6%	4.3%	6.1%
ROE (%)	10.7%	12.0%	12.2%	16.6%
ROCE (%)	8.9%	10.8%	15.5%	11.9%
Net D/E (x)	2.1	1.4	0.6	1.0

Turnover Ratios	FY16	FY17	FY21	9MFY22
Debtors Days	193	185	81	84
Inventory Days	117	93	63	66
Creditor Days	58	69	65	102
Asset Turnover (x)	0.9	1.1	1.7	1.8

Valuation Ratios	FY19	FY20	FY21	9MFY22
Price/Earnings (x)			15.3	7.1
EV/EBITDA (x)			10.5	7.2
Price/BV (x)			2.1	1.6
Mkt cap/Sales (x)			0.7	0.4
EV/Sales (x)			1.1	0.7

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	9MFY22
Share Capital	575	575	575	575
Reserve & Surplus	907	1,028	1,252	1,613
Non Controlling Int	-	-	-	-
Networth	**1,483**	**1,604**	**1,828**	**2,189**
Total Loans	**3,123**	**2,298**	**1,251**	**2,241**
Other non-curr liab.	1	0	0	0
Deferred tax liab.	26	22	93	93
Trade payable	708	806	940	2,241
Other Current Liab	200	178	209	322
Total provisions	87	103	103	101
Total Current Liab.	**995**	**1,087**	**1,251**	**2,664**
Total Equity & Liab.	**5,628**	**5,010**	**4,423**	**7,186**
Fixed Assets & CWIP	1,279	1,363	1,446	1,552
Deff Tax Assets	21	22	12	12
Other non Curr. assets	12	17	23	427
Cash	20	6	93	83
Inventories	1,422	1,079	899	1,464
Debtors	2,342	2,149	1,156	1,851
Investments		3	125	653
Other Current assets	531	372	669	1,144
Total Assets	**5,628**	**5,010**	**4,423**	**7,186**

Cash Flow (Rs. Cr)	FY19	FY20	FY21	9MFY22
EBITDA	442	460	542	579
Provisions & Others	(20)	61	43	42
Op. profit before WC	**421**	**521**	**586**	**621**
Change in WC	(1,305)	778	993	(424)
Less: Tax	(36)	(29)	(77)	(61)
CF from operations	**(920)**	**1,270**	**1,501**	**135**
Addition to assets	(126)	(139)	(169)	(568)
(Purchase)/Sale of invst.	5	(6)	(121)	(586)
Div/Int Received	18	1	1	1
CF from Investing	**(103)**	**(143)**	**(289)**	**(1,154)**
Loans	1,253	(863)	(1,006)	995
Dividend Paid	(69)	(69)	-	-
Interest paid	(165)	(209)	(118)	(43)
CF from Financing	**1,018**	**(1,141)**	**(1,124)**	**952**
Net Change in cash	**(5)**	**(15)**	**87**	**(66)**
Cash at beginning	24	19	4	92
Exchange difference				
Cash at end	19	4	92	25

Disclosure:

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