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IPO note: India Pesticides Limited (IPL) - "SUBSCRIBE for listing gains" **June 23, 2021**

Issue date	June 23 -June25, 2021
Listing date	July 05, 2021
Price Band	₹290 - 296 (Face value: Re. 1)
Bid lot	50 shares and in multiple thereof
Issue size and type	Total issue size: ₹800 crores Fresh issue: ₹100 crores Offer for sale: ₹700 crores
Issue structure	QIB - 50%, NIB-15%, Retail - 35%
Post issue shares	11.52 crore equity shares
Promoter holding	Pre IPO: 82.68 %/Post IPO: 72%
Post issue market cap	₹3,409 crores
BRLMs	Axis Capital, JM Financial
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (₹ crores)	FY21	FY20	FY19
Topline	649	480	341
EBITDA	190	104	71
EBITDA (%)	29.20	21.61	20.73
Profit after tax	135	71	44
PAT margin (%)	20.53	14.46	12.69
Equity share cap.	11.18	3.18	3.18
Networth	390	257	187
Post IPO EPS (₹)	11.72	6.16	3.82
P/E (x)	25	48	77
RoNW (%)	34.63	27.48	23.46
RoCE (%)	45.18	35.82	32.33

Source: RHP, # denotes P/E on annualised 9MFY21 numbers

Strong player in Agrochemicals space with an impressive background..

India Pesticides Limited ("IPL") was incorporated on December 13, 1984. IPL is an R&D driven agro-chemical manufacturer of Technicals with a growing Formulations business. IPL is the fastest growing agro-chemical companies in India in terms of volume of Technicals manufactured. The Company has witnessed 37.17% year-on-year growth in Technicals manufacturing (by volume) between Fiscal 2020 and Fiscal 2021. The Company is the sole Indian manufacturer of 5 Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. IPL also diversified into manufacturing herbicide and fungicide Technicals active pharmaceutical ingredients ("APIs") and Formulations. The Company also manufactures herbicide, insecticide and fungicide Formulations. As of March 31, 2021, company's Technicals were exported to over 25 countries. The revenue generated from exports contributed to 56.71 percent of their revenue in Fiscal 2021. IPL currently has 2 manufacturing facilities located at Lucknow and Hardoi in Uttar Pradesh. As of March 31, 2021, their aggregate installed capacity of their manufacturing facilities for agro-chemical Technicals was 19,500 MT and Formulations was 6,500 MT. The Company also commenced construction of 2 manufacturing units which are proposed to be used for herbicide Technicals. The Company has obtained registrations and license to manufacture from the CIBRC for 22 agro-chemical Technicals and 125 Formulations for sale in India and 27 agro-chemical Technicals and 35 Formulations for export while they have a license to manufacture from the Department of Agriculture, Uttar Pradesh for 49 agro-chemical Technicals and 158 Formulations. For their APIs, they have obtained a license for manufacturing 2 drugs for sale at Dewa Road from the Drug Licensing and Controlling Authority under the Drugs and Cosmetics Rules, 194

Diversified portfolio of niche and quality specialized products..

IPL has diversified its product portfolio over the years and have grown into a multi-product manufacturer of Formulations, herbicide and fungicide Technicals as well as APIs. As of the date the Company has: a) Obtained registrations for 22 agro-chemical Technicals and 125 Formulations for sale in India; b) Obtained registration for 27 agro-chemical Technicals and 35 Formulations for export; IPL has a license to manufacture for 49 agro-chemical Technicals and 158 Formulations. For APIs, IPL has obtained a license for manufacturing 2 drugs for sale. The Company manufactured 8 export grade Technicals, 2 APIs and over 30 Formulations. The Company's products are exported to regulated markets including Australia and other countries located in Europe, Africa and Asia and have received product registrations either through their customers or by the company. IPL commenced manufacturing of Technicals for herbicides in 2018 that are exported which has led to an increase in their EBITDA margins from 21.61% in Fiscal 2020 to 29.20% in Fiscal 2020. The exports limit the impact on them of cyclical and monsoon trends in the agriculture industry.

Long term relationship with marque clients..

The Company's customer relationships are led primarily by its ability to manufacture complex Technicals that go off-patent in a cost effective, safe and environmentally conscious manner as well as their ability to meet stringent quality specifications. Company's customer base currently comprises a number of multinational, regional and local companies that includes crop protection product manufacturing companies such as ASCENZA AGRO, S.A., Conquest Crop Protection Pty Ltd, Sharda Cropchem Ltd, Syngenta Asia Pacific Pte. Ltd., Stotras Pty Ltd and UPL Ltd. The Company has a strong and long established relationships with most of their customers, many of whom have been associated with the company for over 10 years.

Consistent track record of financial performance

IPL has demonstrated consistent growth in terms of revenues and profitability over the last three years. Over the period FY19-21, the Company's revenues has witnessed a CAGR of 90.48 percent from ₹ 341 crore in FY19 to ₹ 648.95 crore in FY21. In the same period, EBITDA registered a CAGR of 63.5 percent.

Investment recommendation and rationale

At the upper end of the price band of ₹296, the Company's IPO is valued at P/E multiple of 25x on FY21 earnings which looks decent as compared to Industry Average - P/E of 35x. We recommend to "SUBSCRIBE for listing gains" the issue due to the following factors: a) IPL is the sole Indian manufacturer of 5 Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity; b) strong R&D and product development capabilities, c) diversified portfolio of niche and quality specialized products, d) Company's core focus is on quality and sustainability and none of its key Technicals are classified as 'red triangle' or highly toxic products; e) long term relationship with marque clients, f) strong sourcing capabilities and extensive distribution network, g) consistent track record of financial performance, h) healthy balance sheet with long term debt/equity of 0.02x, i) enjoys good ROE of 34.63 percent in FY21 which is one of the best in agrochemicals industry. However, there are few concerns as well. The Company is dependent on a limited number of customers for a significant portion of their revenues. In Fiscals 2019, 2020 and 2021, their top 10 customers represented 54.35%, 58.59% and 56.83%, respectively, of their total revenues from operations in such periods. Their largest customer represented 29.63%, 16.75% and 19.23% of their total revenues from operations for the same period. In addition, through the IPO, the Company will raise only ₹ 100 crores against Offer for sale from Promoters of whopping ₹ 700 crores which will not enhance the Networth of the Company.

Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research

Competition

The Indian agro-chemicals industry is fragmented in nature and IPL faces competition from different domestic and global manufacturers for different products that they manufacture. In the domestic markets, the Company's competitors include companies such as UPL Ltd, PI Industries Ltd and Jubilant Lifesciences Ltd, while in the international markets, they face competition from companies such as China National Corporation Ltd, Sumitomo Chemicals Co. Ltd and BASF SE, in the manufacture of agro-chemicals. Some of their competitors in the agro-chemicals industry may have greater financial resources, technology, research and development capability, greater market penetration and operations in diversified geographies and product portfolios, which may allow their competitors to better respond to market trends.

Peer comparison (based on FY21 Financials - ₹ in crores)

Particulars	CMP as on June 22, 2021 (₹)	FV (₹)	P/E (x)	Market Cap	Topline	EBITDA (%)	PAT	PAT (%)	ROE (%)
India Pesticides Limited	**296***	**10**	**25**	**3,409 (Post issue)**	**649**	**29.20**	**135**	**20.53**	**34.63**
Dhanuka Agritech	955.65	2	21	4,451	1,387	19.40	211	15.21	28.0
Bharat Rasayan Limited	13,040	10	36	5,542	1,093	20.27	154	14.08	32.9
UPL Limited	772	2	19	58,999	38,694	21.58	3,028	7.83	16.3
Rallis India Limited	340.85	1	31	6,628	2,429	13.35	213	8.77	14.2
PI Industries Limited	2,809.55	1	58	42,626	4,577	22.11	738	16.12	18.6
Sumitomo Chemicals Limited	380.70	10	55	19,002	2,643	18.40	345	13.05	25.2

* denotes at upper end of the price band

Objects of the issue

The net proceeds of the fresh issue **of ₹ 100 crores**, of which ₹ 80 crores will be used for Funding working capital requirements of the company and the balance of around ₹ 20 crores for General Corporate purposes.

The objects of the Offer are to (i) to carry out the **Offer for Sale of up to ₹ 700 crores by the Selling Shareholders**; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges The Company expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its shareholders and will also provide a public market for the equity shares in India.

Selling shareholders:

Name of the shareholder	Amount
Anand Swarup Agarwal – The Promoter Shareholder	₹ 281.40 Cr
Sanju Agarwal - The Selling Shareholder	₹ 22.70 Cr
Mahendra Swarup Agarwal - The Selling Shareholder	₹ 73.40 Cr
Virendra Swarup Agarwal - The Selling Shareholder	₹ 29.00 Cr
Pramod Swarup Agarwal - The Selling Shareholder	₹ 32.90 Cr
Vishwas Swarup Agarwal - The Selling Shareholder	₹ 18.90 Cr
Vishal Swarup Agarwal - The Selling Shareholder	₹ 21.70 Cr
Other Selling Shareholders	₹ 220.00 Cr

Source: RHP

Company background

The company was originally incorporated as 'India Pesticides Private Limited', on December 13, 1984 at Bareilly, Uttar Pradesh. Anand Swarup Agarwal and the ASA Family Trust are the Promoters of the company. As on the date, the Promoters, in the aggregate, hold 52,506,967 Equity Shares, which aggregates to 46.97% of the pre-Offer, issued, subscribed and paid-up Equity Share capital of the company.

Promoter and Management background

Dr. Bhaskara Rao Bollineni is a renowned cardiothoracic surgeon in India. He has over 27 years of experience in cardiothoracic surgery and has worked in several other leading medical institutions in the country. He started KIMS with the vision to create a hospital system for his home state of AP that is capable of attracting top medical talent and providing high-quality care at affordable prices. Under his leadership, and that of Dr. Abhinay Bollineni, who

joined KIMS in 2014, they have expanded into 9 cities across AP and Telangana through a combination of greenfield, brownfield and acquisition-led expansion. Dr. Abhinay assumed CEO position in 2019 and played a leadership role in expanding the KIMS' network over the last 5 years, including in the launch of KIMS Kondapur and the acquisitions of their hospitals in Ongole, Vizag, Anantapur and Kurnool.
Dr. Bhaskara Rao Bollineni, Dr. Abhinay Bollineni, Adwik Bollineni, Rajyasri Bollineni, and Bollineni Ramanaiah Memorial Hospitals Pvt. Ltd. are the promoters of the company. Currently, the Promoters in aggregate hold 28,841,886 Equity Shares in the company, representing 37.17% of the paid-up Equity Share capital of the company.

Brief Biographies of Directors

Anand Swarup Agarwal is the Chairman and non-executive Director of the company. He has over 35 years of experience in agrochemical manufacturing. He is one of the Promoters and one of the founders of the company. In the past he was the part time non-official director on the board of directors of Punjab National Bank. He has also a director on the board of directors of PNB Gilts Ltd.

Rajendra Singh Sharma is the whole-time Director of the company. He has been associated with the company since last 22 years and has experience in agro-chemical manufacturing. Rahul Arun Bagaria is the Non-Executive Director of the company. He has more than 5 years of professional experience and expertise in corporate law and taxation.

Adesh Kumar Gupta is the Independent Director of the company. He previously held the position of whole time director and chief financial officer at Grasim Industries Ltd. and has also been a director at Ultra Tech Cement Ltd.

Mohan Vasant Tanksale is the Independent Director of the company. He was previously the chairman and managing director of Central Bank of India and was an executive director on the board of Punjab National Bank till June 2011.

Madhu Dikshit is the Independent Director of the company. In the past, she has been associated with the CSIR – Central Drug Research Institute, Lucknow as a director.

Key Managerial Personnel

Dheeraj Kumar Jain is the Chief Executive Officer of the company. He has more than 25 years of experience with the company and has been responsible for product development, international business development and project engineering.

Satya Prakash Gupta is the Chief Financial Officer of the company. He has over 27 years of experience in the field of finance.

Ajeet Pandey is the Company Secretary and Compliance Officer of the company. Ajai Kumar Sinha is the General Manager - Formulation Marketing of the company. B.T. Hanumantha Reddy is the General Manager - Manufacturing of the company.

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net,

AKASH
AJAY
JAIN

Digitally signed by AKASH AJAY JAIN

DN: c=IN, o=Personal,
2.5.4.20=b226ee7c5ed3d1a9b0882e3a6df517cd0afe94a43222207631a6f495c5b8eb24,
postalCode=400055, st=MAHARASHTRA,
serialNumber=2175639688e828dc21788bcf87dda9f4e184adfc49b352c194a519495cc1ffd3, cn=AKASH AJAY JAIN, l=MUMBAI,
pseudonym=ebf7c9d498e64a22b52ca30490ebe8f6,
email=AKASH_JAIN1984@HOTMAIL.COM

Date: 2021.06.23 10:41:24 +05'30'

CIN: L74140MH1986PLC041941

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Registered and Corporate office

408 - (4th Floor), Express Zone, “A” Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel’s, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062