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IPO Report

15th May' 22

Snapshot

Paradeep Phosphates Ltd 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. Company 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").

VALUATION

Company is bringing the issue at price band of Rs 39-42 per share at p/e multiple of 11x on FY21 eps basis.

Company being second largest private sector manufacturer of Phosphatic fertilizers in India is well-positioned to capture favorable Indian fertilizer industry dynamics supported by conducive government regulations. Company with established brand name backed by an extensive sales and distribution network has strong parentage, experienced management team and prominent shareholders is looking decent investment avenue for long term investment.

Hence we recommend "Subscribe" on issue for long term .

Price Band (Rs./Share)	39-42
Opening date of the issue	17th May 2022
Closing Date of the issue	19th May 2022
No of shares pre issue	575450000 Eq Shares
Issue Size	Rs 1466- Rs 1502 Cr
Fresh Issue	Rs 1004 Cr
Offer For Sale	118,507,493 Equity Shares
Face Value (Rs/ share)	10
Bid Lot	350

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 178777556 Eq Shares)
Non-Institutional	15% of the offer (Approx 53633267 Eq Shares)
Retail	35 % of the offer (Approx 125144289 Eq Shares)
Lead managers	Axis Capital, ICICI Securities, JM Financial, SBI Capital Markets
Registrar to the issue	Link Intime India Pvt Ltd.

WHAT WE LIKE

Second largest manufacturer of Phosphatic fertilizers in India

Among private sector entities with a focus on the non-urea segment, company is the second largest in terms of phosphatic fertilizer (DAP and NPK complexes) capacity, as of March 31, 2022. As of March 31, 2022, (i) company's total annual granulation capacity of DAP and NPK production plant was approximately 1.50 million MT; (ii) company's total annual installed capacity of Sulphuric acid production plant was approximately 1.30 million MT; and (iii) company's total annual installed capacity of Phosphoric acid production plant was 0.30 million MT, in addition, the plant has three operational concentrators to concentrate weak Phosphoric acid into strong Phosphoric acid.

Established brand name

The brands 'Jai Kisaan – Navratna' and 'Navratna' are well-known to the farmers in the Eastern parts of India. Company is able to generate demand for its brand through its marketing activities, which are directed towards distributors and farmers. They consist of a broad range of advertising and promotional tools, such as meeting with farmers, promotions at point-of-sale locations, field demonstrations, organizing bazaar days, rural upliftment programmes in selected districts where fertilizer consumption is low, crop seminars, trainings programmes for farmers, programmes for promoting soil health awareness, distribution of crop and product literature, publicity van campaigns, retailers' meets, hoardings and direct marketing activities

Extensive sales and distribution network

As of March 31, 2022, company have set up a network of 11 regional marketing offices and 468 stock points in 14 states across India. As of March 31, 2022, company's network comprised 4,529 dealers and over 60,257 retailers, catering to five million estimated farmers in India. Further, company have a dedicated team of 70 marketing officers, 9 junior agronomists and 71 field assistants



COMPANY BACKGROUND

Company 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 company, with the balance being held by the Government of India.

Company is part of the Adventz Group, as well as OCP. The founding chairman of the Adventz Group was the late Dr. K.K. Birla and the current chairman is Mr. Saroj Kumar Poddar. The Adventz Group operates in several businesses and has a strong presence in the agribusiness, engineering and infrastructure businesses and emerging lifestyle business. OCP, founded in 1920, with revenues of over US\$6.3 billion in 2020, is one of the leading producers of Phosphate rock globally and operates largely in the Morocco and Western Sahara region which has approximately 70% of the global Phosphate rock reserves, and is owned 95% by the Moroccan government. Phosphate rock is processed to produce phosphorous, which is one of the three main nutrients most commonly used in fertilizers (the other two are nitrogen and potassium). India has negligible Phosphate reserves and is dependent on imports of Phosphate rock (a source raw material) or Phosphoric Acid (an intermediate raw material) or DAP (finished phosphatic fertilizer).

Company’s 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. Company utilize Sulphuric and Phosphoric acids for manufacturing DAP and NPK.

As of March 31, 2022, (i) company’s total annual granulation capacity of DAP and NPK production plant was approximately 1.50 million MT; (ii) its total annual installed capacity of Sulphuric acid production plant was approximately 1.30 million MT; and (iii) its total annual installed capacity of Phosphoric acid production plant was 0.30 million MT, in addition, the plant has three operational concentrators to concentrate weak Phosphoric acid into strong Phosphoric acid. Company also have facilities to store its raw material in Paradeep, Odisha and at any point of time, company can store 120,000 MT of Phosphate rock, 65,000 MT of Phosphoric acid solution, 55,000 MT of sulphur, 45,000 MT of Sulphuric acid, 40,000 MT of liquid ammonia and 35,000 MT of MOP. Company also have two captive power plants of 16 MW each, designed to run on the excess steam generated by the Sulphuric acid production plant.

With a view to (i) increase the size of company, with a product portfolio comprising both Phosphatic and Nitrogenous fertilizers; and (ii) accessing the high fertilizer demand markets of Maharashtra and Karnataka, on March 1, 2021, company entered into a business transfer agreement (“BTA”) with ZACL for the purchase of its fertilizer plant in Goa (the “Goa Facility”) by company (the “Goa Transaction”) as a going concern on a slump sale basis, for a total consideration equal to the enterprise value of USD 280 million, equivalent to ₹ 20,523 million as per the terms of BTA, subject to necessary adjustments as specified in the BTA and further subject to certain customary conditions precedent. Upon the completion of the Goa Transaction, company will acquire the business of developing, manufacturing and trading of urea and NPK products carried out at the Goa Facility. Subsequent to the acquisition of Goa Facility, company’s total fertilizer production capacity is expected to increase by 1.2 million MT, comprising: (i) annual granulation capacity of DAP and NPK production plants to increase by approximately 0.80 MT; and (ii) annual capacity of producing Urea to be approximately 0.04 MT.

The following table sets forth the volume of fertilizers manufactured and sold by company for the periods indicated:

Fertilizers	Fiscal Year 2022		Fiscal Year 2021		Fiscal Year 2020	
	Volumes Manufactured	Volumes Sold	Volumes Manufactured	Volumes Sold	Volumes Manufactured	Volumes Sold
DAP	721565	724109	638737	658097	564132	646484
DAP (Trolling)	19848	19845	--	---	---	---
NPK						
NPK-10	85,555	85,663	81,490	97,932	106,283	90,303
NPK-10 (Trolling)	9485	4133	---	---	---	---
NPK-12	30663	31294	26465	25852	12380	12294
NP-20	380062	375953	275200	338207	378625	377289
Zypmite	40540	39260	16574	19685	23036	22975
Phospho-gypsum	1583132	1583132	1205347	1205347	914422	914422
HFSA	4903	4903	3507	3507	3343	3343



INVESTMENT RATIONALE

<p><i>Well-positioned to capture favorable Indian fertilizer industry dynamics supported by conducive government regulations</i></p>	<p>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 company expect to continue witnessing growth in the Indian fertilizer industry. The demand for fertilizers in India is expected to reach approximately 66 million tonnes by Financial Year 2026 growing at a CAGR of 2.9%-3.1% from Financial Year 2022 to Financial Year 2026. Further, company expect to benefit from the government policies that support the fertilizer industry. The NPK ratio languished to 6.6:2.7:1.0 in Financial Year 2020 from 4.7:2.3:1 in Financial Year 2011 due to increased usage of urea over the years. Going ahead, the P ratio is expected to improve to 6.3:2.7:1.0 by Financial Year 2026 led by the Government's efforts to increase awareness about soil fertility (e.g. the soil health card scheme and higher adoption of fertilizer mixtures (NPK fertilizers) instead of single nutrient fertilizers.</p>
<p><i>Driving raw material efficiency through backward integration of facilities and effective sourcing</i></p>	<p>Company is committed to the integration of the industrial value chain from securing a stable supply of raw materials and owning integrated facilities to maintaining a wide distribution network for its products and ensuring good customer service. Company's primary raw materials include Phosphate Rock, Phosphoric acid, Ammonia, Sulphur and MOP. Company produce some of its Phosphoric acid and Sulphuric acid requirements, with the other raw materials being sourced from suppliers. Company source its raw materials from a number of suppliers based locally and in countries such as Morocco, Jordan, Qatar and Saudi Arabia, among others. In the nine months ended December 31, 2021 and the Financial Year 2021, company had procured raw materials totaling to approximately ₹ 49,170.90 million and ₹ 34,485.77 million, respectively, from approximately six suppliers and all of them have been supplying raw materials to company for more than 10 years. Company have strong relationships with its suppliers for its raw material requirements.</p>
<p><i>Strategic location of company's manufacturing facility and sizeable material storage, handling and port facilities</i></p>	<p>Company's manufacturing facility is strategically located near the Paradeep port, where it own a captive berth with 14 meters draft with facilities to unload solid and liquid cargo. As a result, company is generally able to meet loading and unloading schedules of the carriers and save on demurrage charges. Company propose to replace its ship unloader by procuring a new one by December 2022 to enhance reliability and efficiency of company's port operations. Company also have a closed conveyor belt which is 3.4 km long connecting the Paradeep port to its facility. This enables company to transport its raw materials in solid form directly to company's facility. In addition, cross-country pipeline which is 3.1 km long. This enables company to transport raw material in liquid form directly to company's facility. Company also own a railway siding.</p>
<p><i>Strong parentage, experienced management team and prominent shareholders</i></p>	<p>Company have an experienced management team with relevant industry experience, which is supported by a capable and motivated pool of employees. Company's current management team has been instrumental in the steady improvement of its financial performance pursuant to its effective management and operational optimization of company's assets. From 1986 to 2007, Company had incurred losses, leading to it being deemed a sick company and requiring it to enter into a rehabilitation scheme</p>



OBJECTS OF ISSUE

The Offer comprises of a Fresh Issue of Equity Shares, aggregating up to ₹ 10,040.00 million by Company and an Offer for Sale of up to 118,507,493 Equity Shares. The net proceeds of the Fresh Issue, i.e. gross proceeds of the Fresh Issue less the offer expenses apportioned to Company ("Net Proceeds") are proposed to be utilised in the following manner:

- Part-financing the acquisition of the Goa Facility;
- Repayment/prepayment of certain of borrowings; and
- General corporate purposes.

RISKS

The fertilizer industry in India is a regulated industry. Any change in Government policies towards the agriculture sector or a reduction in subsidies and incentives provided to farmers could adversely affect company's business and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Growth drivers for Fertilizer sector

Fragmentation of arable land resulting in higher cropping intensity key driver of fertilizer industry in India : With urbanization reaching all over the country, arable land has seen continuous decline. More farmers are using different inputs such as fertilizers to achieve the level of output with same or even lesser arable land, fertilizers will be extensively used.

Increase in per capita food consumption and dietary changes : Increased disposable income and better food security has resulted in increased food consumption. There has also been a dietary shift among rural and urban population. The consumption of cereals and pulses have seen declining trend whereas edible oils and animal food products have seen uptick in consumption. This rise in consumption is likely to put strain on agriculture sector.

India have seen increase in per capita income in urban as well as rural area. The per capita income has increased from ₹ 63,462 in 2011-12 to ₹ 94,556 in the year 2019-20, registering a CAGR of 5.1%. Per capita income declined to ₹ 85,110 in Financial Year 2021 owing to the COVID-19 pandemic, and per capita income is estimated to have increased sharply in Financial Year 2022 at ₹ 93,973, registering on-year growth of approximately 10%. Increases in income, coupled with the ease of credit availability in rural areas, has motivated farmers to use farm inputs such as seeds, fertilizers and pesticides.

High subsidy support from the government: Many of the essential fertilizers in India are subsidized. Portion of the total price is borne by the government. Widely used fertilizers like urea is highly subsidized. Subsidy bill of government has steadily increased from Financial Year 2018 to FY 2021 with a CAGR of 8.1%. The subsidy allocation in Financial Year 2022, including the allocation during the year, stands at 1.48 trillion, which is the highest amount in the recent years. The government provides subsidies to fertilizer considering its criticality to agriculture produce.

Assessment of phosphatic fertilizer segment

Overview of phosphatic fertilisers

Soils in tropical and subtropical regions have high P-deficiency

As per FAO reports, extensive tracts of land in the tropical and subtropical regions of Asia, Africa and Latin America contain highly weathered and inherently infertile soils. These areas generate low crop yields and are prone to land degradation as a result of deforestation, overgrazing and inadequate farming practices. In addition to socio-economic factors, the main constraints are soil acidity and low inherent N and P fertility. While N inputs can be obtained from organic sources, P inputs need to be applied in order to improve the soil P status and ensure normal plant growth and adequate yields. Tropical and subtropical soils are predominantly acidic and often extremely P deficient with high P sorption (fixation) capacities. Therefore, substantial P inputs are required for optimum growth and adequate food and fiber production.

Overview of raw materials for phosphatic fertilisers

Imports of rock phosphates have seen steady growth due to demand from complex fertilisers

Four companies in India - Pyrites, Phosphates & Chemicals Ltd, Mussoorie; Rajasthan State Minerals & Metals, Jhamarkotra; Madhya Pradesh State Mining Corporation Ltd, Jhabua and Sagar; and West Bengal Mineral Development & Trading Corporation, Purulia manufacture rock phosphate. Reserves of Indian rock phosphate

(Source:RHP)


(Rs in Mn)

Financials	FY19	FY20	FY21	As at 31 Dec'21
Total Revenue (A)	43579.12	41928.65	51647.34	59599.70
Total Expenditure (B)	39163.75	37331.19	46224.90	53812.47
EBIDTA	4415.37	4597.46	5422.44	5787.23
EBIDTA Margin	10.13	10.96	10.50	9.71
Other Income	393.01	349.11	192.07	137.18
Depreciation	700.98	724.76	833.28	670.85
EBIT	4107.40	4221.81	4781.23	5253.56
Interest	1592.53	1917.91	1114.25	430.68
PBIT	2514.87	2303.90	3666.98	4822.88
Sh of profit in Associate	-0.90	-8.28	-1.95	6.16
PBT	2513.97	2295.62	3665.03	4829.04
Tax	924.34	363.42	1432.35	1201.20
PAT	1589.63	1932.20	2232.68	3627.84
NPM	3.65	4.61	4.32	6.09
ROE %	10.72	12.05	12.22	16.57
EPS	2.76	3.36	3.88	6.30
Eq Cap	5,754.50	5,754.50	5,754.50	5,754.50
Net Worth	14827.13	16035.34	18275.1	21887.92
BV	25.77	27.87	31.76	38.04

(Source:RHP)

Peer Comparison

Company Name	OPM%	ROE %	PE	PBV
Chambal Fertilisers	19.37	37.76	9.74	2.75
Coromandel International	11.25	28.03	16.76	4.03
Deepak Fertilisers	16.47	16.79	12.98	1.83
Paradeep Phosphates	10.50	12.22	---	---

 (Source:Ace Equity database as on 12th May'22)



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