

Company Overview

Incorporated in 1981, Paradeep Phosphates Limited (PPL) is a manufacturer of non-urea fertilizers in India. The company is engaged in manufacturing, trading, distribution and sales of a variety of complex fertilizers such as DAP, three grades of Nitrogen-Phosphorus-Potassium (namely NPK-10, NPK-12 and NP-20), Zypmite, Phospho-gypsum and Hydroflorosilicic Acid. Paradeep Phosphates Limited is the second largest private sector manufacturer of non-urea fertilizers and Di-Ammonium Phosphate (DAP) in terms of volume sales for the nine months ended December 31, 2021. The company's fertilisers are marketed under the brand names Jai Kisaan-Navratna and Navratna. The manufacturing facility of Paradeep Phosphates Limited is located in Paradeep, Odisha, and includes a DAP and NPK production facility, a Sulphuric acid production plant and a Phosphoric acid production plant. The company established an extensive sales and distribution network, with a strong presence in the eastern part of India.

Objects of the issue

The net proceeds of the Fresh Issue are proposed to be utilised in the following manner:

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

Investment Rationale

Well-positioned to capture favorable Indian fertilizer industry dynamics supported by conducive government regulations

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, the company's 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 FY26 growing at a CAGR of 2.9%-3.1% from FY22-26. Further, they expect to benefit from the government policies that support the fertilizer industry. The NPK ratio languished to 6.6:2.7:1.0 in FY20 from 4.7:2.3:1 in FY11 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 FY26 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). The Soil Health Card is provided to all farmers across India once in a cycle of two years and it provides information to the farmers on the nutrient status of their soil based on certain parameters. Financial assistance is also provided under the Soil Health Card Scheme for training farmers and holding field demonstrations on balanced use of fertilizers.

Driving raw material efficiency through backward integration of facilities and effective sourcing

The 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 their products and ensuring good customer service. Their primary raw materials include Phosphate Rock, Phosphoric acid, Ammonia, Sulphur and MOP. They produce some of their Phosphoric acid and Sulphuric acid requirements, with the other raw materials being sourced from suppliers. The company sources their raw materials from a number of suppliers based locally and in countries such as Morocco, Jordan, Qatar and Saudi Arabia, among others. In the 9MFY22 and FY21, they had procured raw materials totaling to approximately INR 49,170.90 million and INR 34,485.77 million, respectively, from approximately six suppliers and all of them have been supplying raw materials to the company for more than 10 years. The company's believe that they have strong relationships with their suppliers for their raw material requirements.

Valuation and Outlook

PPL is one of the largest manufacturers of DAP/NPK fertilizers in India, with a total installed capacity of 1.5MMTPA post debottlenecking of two trains in FY21. The capacity will increase further to 1.7 MMTPA in FY2023 post debottlenecking of the remaining two lines. Post the acquisition of ZACL's assets the company will have around 2.5 MMTPA of annual manufacturing capacity of phosphatic fertilizers making it the third largest P&K manufacturer in the country. PPL is partially backward integrated into production of phosphoric acid by using rock phosphate and sulphuric acid which provides cost advantage to PPL as phosphoric acid produced is cheaper than imported phosphoric acid. PPL had commissioned a 1.32 MMTPA sulphuric acid plant in FY16 which has improved the company's cost structure due to lower cost of power (produced from steam generated from the sulphuric acid plant) sulphuric acid. Additionally, with the company in midst of installing an evaporator to increase the inhouse production of strong phosphoric acid and increase in the phosphoric acid production capacity to 1500 TPD, the extent of backward integration will further improve, leading to improvement in the contribution margins. At the upper end of the price band, the issue is valued at a P/E of 7x based on FY22 annualized earnings, which we believe is reasonably priced. Hence, we recommend a **"SUBSCRIBE"** rating on this issue for the long term.

Issue Details

Offer Period	17 th May - 19 th May 2022
Price Band	INR.39 to INR.42
Bid Lot	350
Listing	BSE&NSE
Issue Size (no. of shares in mn)	239
Issue Size (INR. in bn)	15
Face Value	10

Issue Structure

QIB	50 %
NIB	15 %
Retail	35 %
BRLM	Axis Capital, ICICI Securities, JM Financiaal, SBI Capital Marekt Ltd.
Registrar	Link Intime.

Particulars	Pre Issue %	Post Issue %
Promoters	100%	56%
Public	0%	44%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY19	FY20	FY21	9MFY22
Revenue				
Revenue from operations	43,579	41,929	51,647	59,600
Total Revenue	43,579	41,929	51,647	59,600
Expenses				
Cost of raw materials consumed	28,476	22,101	22,651	37,951
Purchased of traded goods	8,391	4,754	13,802	10,424
Changes in inventories of finished goods and by products	(5,624)	2,586	2,258	(1,342)
Employee benefit expenses	1,306	1,319	1,392	1,004
Other expenses	6,615	6,571	6,121	5,775
Total Operating Expenses	39,164	37,331	46,225	53,812
EBITDA	4,415	4,597	5,422	5,787
Depreciation and amortisation expense	701	725	833	671
Other income	393	349	192	137
EBIT	4,107	4,222	4,781	5,254
Net of tax	(1)	(8)	(2)	6
Finance Costs	1,593	1,918	1,114	431
Profit before tax	2,514	2,296	3,665	4,829
Current tax	553	408	727	1,201
Income tax expenses/(credit) for the earlier years (net)	16	(18)	(1)	
Deferred Tax Charge/ (charge)	355	(27)	707	0
Total Tax	924	363	1,432	1,201
PAT	1,590	1,932	2,233	3,628
Diluted EPS	2.0	2.4	2.7	4.45

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	9MFY22
Cash flow from operating activities	(9,204)	12,697	15,011	1,355
Cash flow from investing activities	(1,032)	(1,432)	(2,893)	(11,537)
Cash flow from financing activities	10,184	(11,412)	(11,244)	9,520
Net increase/(decrease) in cash and cash equivalents	(52)	(147)	874	(662)
Cash and cash equivalents at the beginning of the period	239	187	41	915
Cash and cash equivalents on acquisition of subsidiary	-	-	-	-
Cash and cash equivalents at the end of the period	187	41	915	253

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	9MFY22
Liabilities				
Share capital	5,755	5,755	5,755	5,755
Other equity	9,073	10,281	12,521	16,133
Net worth	14,827	16,035	18,275	21,888
Borrowings	2,189	1,394	1,134	4,918
Other financial liabilities	9	2	1	1
Provisions	194	271	198	264
Deferred tax liabilities (net)	264	219	930	927
Total Non current liabilities	2,656	1,885	2,263	6,110
Borrowings	29,041	21,585	11,378	17,491
Trade payables	7,079	8,061	9,395	22,412
Other financial liabilities	1,082	609	825	1,048
Other current liabilities	879	1,032	1,264	1,575
Provisions	676	756	830	747
Liabilities for current tax (net)	35	138	2	593
Total Current liabilities	38,793	32,183	23,694	43,865
Total Liabilities	56,276	50,103	44,232	71,862
Assets				
Property, plant & equipment	10,234	12,127	12,251	12,678
Capital work in progress	2,548	1,490	2,201	2,837
Equity accounted in investment		31	28	28
Other intangible assets	10	14	11	9
Other income tax assets	212	215	125	125
Other non-current assets	119	174	232	4,268
Total Non Current Assets	13,123	14,051	14,847	19,945
Inventories	14,218	10,785	8,991	14,638
Investments			1,220	6,502
Trade receivables	23,421	21,489	11,556	18,513
Cash and cash equivalents	187	41	915	253
Bank balances other than above	14	17	17	576
Assets classified as held for sale	2	2	2	2
Other financial assets	1,264	1,437	1,959	3,065
Others current assets	4,046	2,281	4,724	8,368
Total Current Assets	43,154	36,052	29,384	51,918
Net Current Assets	4,361	3,869	5,690	8,053
Total Assets	56,277	50,103	44,232	71,863

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company have historically derived a significant portion of their revenues from operations from a limited number of states and any adverse developments in these states could adversely affect their business.
- ⇒ If they are unable to obtain or maintain regulatory approvals for their products, the company may be unable to sell such products, which could adversely affect their business and results of operations.
- ⇒ Their inability to expand or effectively manage their distribution network may have an adverse effect on their business, results of operations and financial condition.



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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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