

## **K.P.R. AGROCHEM LIMITED**

### **IPO Note (Cautious)**

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**28 June 2019**

# IPO details

Key Data	
Issue Opens	28-Jun-19
Issue Closes	2-Jul-19
Equity Shares Offered (in mn.)	46.43
QIB	Up to 25%
NIB	Min 35%
Retail	Min 40%
Face Value (₹)	10
Price Band (₹)	59-61
Max. Issue Size (₹ mn)	2,832
Lot Size (Eq. Shares)	200 and multiple thereof

Valuation	@ 59 per share	@ 61 per share
Market Cap (₹ mn)	7,074	7,313
Net Debt (₹ mn)	2,831	2,831
Enterprise Value (₹ mn)	9,719	9,959
EV/ Sales	1.6	1.7
EV/ EBIDTA	9.3	9.5
P/B	2.8	2.9
P/E	19.2	19.9

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	61.6	72.0%	49.6	41.3%
Public	23.9	28.0%	23.9	19.9%
Offer for sale	0.0		12.0	10.0%
Fresh Issue			34.4	28.7%
Total	85.5	100.0%	119.9	100.0%

## Object of Offer for sale

- A fresh issue of 34,426,229 Equity Shares aggregating up to 210 Cr. and OFS of sale up to 12,000,000 Equity Shares. To carrying out disinvestment.
- General corporate purposes

## Recommendation

KPR operations and revenues are primarily concentrated in the southern regions of India, mainly in Andhra Pradesh, Telangana and Karnataka. Further, all of the manufacturing facilities are located in southern India and hence geographically concentrated. To increase footprints, it intends to market products in other parts of India, namely, Uttar Pradesh, Himachal Pradesh, Chhattisgarh and West Bengal. Also, is looking forward to penetrate into new locations and strengthen its reach in the present areas of operations. However, all the stated expansions would be time taking.

At the IPO upper price band of ₹ 61, the stock is available at \*19.9x FY19. Thus based on the valuations, we believe KPR Agro is fully priced and we recommend to be **Cautious** on the issue.

\*Annualised

## Leader in online B2B marketplace for business products and services in India

- ❑ KPR Agro Chem Ltd is an agri-input Company focused on manufacturing, distribution and retailing of a wide range of crop yield enhancing and protection products. Its product portfolio includes crop protection, crop nutrients, seeds, veterinary feed supplements. Further, in order to secure supply of sulphuric acid, one of its key ingredients, it also ventured into manufacturing of sulphuric acid.
- ❑ It produces sulphuric acid as well as other sulphuric acid based chemicals like LABSA and oleum that has wider applications across industries like agrochemicals, veterinary feed supplements, pharmaceuticals, synthetic detergents etc.
- ❑ Its range of product encompasses products across the agri-value chain viz., from seeds to crop nutrients products to crop protection products and also veterinary feed supplements.
- ❑ KPR Agro is a part of the K.P.R. group based out of East Godavari district of Andhra Pradesh. The group has interests in agri-inputs, chemicals, rice mills and poultries. It operates three manufacturing facilities viz one each at Balabhadrapuram and Biccavolu in East Godavari district of Andhra Pradesh and one in Koppal district, Karnataka and its seed processing unit is located in Warangal district, Telangana which is operated under its wholly-owned subsidiary, Sri Sai Swarupa Seeds Private Limited.
- ❑ It has an installed capacity of 555,000 MTPA of crop nutrient products, 21,560 MTPA of crop protection products, 34,560 MTPA for veterinary feed supplements, 175,800 MTPA for chemicals and the installed capacity of its seed processing unit is 15,000 MTPA.
- ❑ It has also set-up a waste heat recovery plant at its manufacturing facility at Biccavolu, East Godavari as well as Koppal, Karnataka to generate power in order to optimally use the steam produced during the manufacturing of sulphuric acid.
- ❑ The aggregate capacity of its waste heat recovery power plants are 2.5 MW (1.5 MW at Biccavolu, Andhra Pradesh and 1 MW at Koppal, Karnataka) which caters to its captive power requirements at its manufacturing facilities.

Source: Red Herring Prospectus, Dealmoney research

# Strengths

- ❑ **Wide agri-input product portfolio with presence across the agri-value chain enabling diversification of revenue risk:** Over the years, KPR Agro has grown significantly on account of diversification of its product range from being only a crop protection product company in the year 2007 to a wide agri-input product portfolio company. Its range of product encompasses products across the agri-value chain viz., from seeds to crop nutrients products to crop protection products and also veterinary feeds supplements. Its continued engagement with the dealers and wide reach to the farmers has helped KPR Agro to understand the specific product requirements of end customers thereby enabling it to identify new product opportunities from time to time. This along with its objective of being present across the agri-value chain and meet the growing needs of farmers has enabled the company to widen its product portfolio which has also helped to derisk revenues..
- ❑ **Strong and growing distribution network:** In order to ensure timely supply and availability of KPR Agro's products as well as achieve last mile connectivity with the farmers, it has set-up company operated depots at 11 locations and also has C & F Agents at 4 locations across India that is established based on the location of the agricultural belts and / or for having ease of connectivity with its dealer network. Its products are distributed from its depots and manufacturing location based warehouses to a network of approximately 8,000 dealers/distributors spread across various states in India. It has a strong marketing team of 145 people as on March 31, 2019, who are in touch with its dealer network on a regular basis to understand demand patterns and also offer them various incentive structures, payment patterns, etc. in order to push its product sales. In order to provide support services to KPR Agro's end customers and dealers, it has also setup a dedicated toll-free helpline for delivering product information, technical details, etc. This has helped it to reach and establish connectivity with its end customers. Further, its strong relationship with dealers and chain of company operated stores has enabled KPR Agro to introduce new products in its existing markets within a short time frame.
- ❑ **Material sourcing capabilities:** The availability of multiple raw material providers across various jurisdictions for KPR Agro varied range of products helps it in not being dependent on a single or limited number of suppliers. It sources its technicals, chemicals, urea, DAP, MOP and other generic active ingredients in their finished form from third party manufacturers, domestically as well as internationally depending on the availability and pricing dynamics. It continues to develop and maintain its relationship with the third party suppliers to ensure timely delivery of raw materials. Further, KPR Agro is also licensed to import some technical products which are primary raw materials for some of its crop protection products. It does not have to depend on third party for sourcing these materials. Its ability to directly source raw materials enables it to plan its production and allocate resources effectively.
- ❑ **Certified manufacturing facilities:** KPR Agro operates three manufacturing facilities viz one each at Balabhadrapuram and Biccavolu in East Godavari district of Andhra Pradesh and one in Koppal district, Karnataka and its seed processing unit is located in Warangal district, Telangana which is operated under its wholly-owned subsidiary, Sri Sai Swarupa Seeds Private Limited. Its combined installed capacities for production of sulphuric acid is 420 TPD used for both captive consumption as well as external sales. It has also set-up a waste heat recovery plant at its manufacturing facility at Biccavolu, East Godavari as well as Koppal, Karnataka to generate power in order to optimally use the steam produced during the manufacturing of sulphuric acid. It has a quality control laboratory at (i) Biccavolu facility, Andhra Pradesh, (ii) Balabhadrapuram facility, Andhra Pradesh; (iii) Warangal facility, Telangana; and (iv) Koppal facility, Karnataka, which primarily monitors the quality of its major raw materials

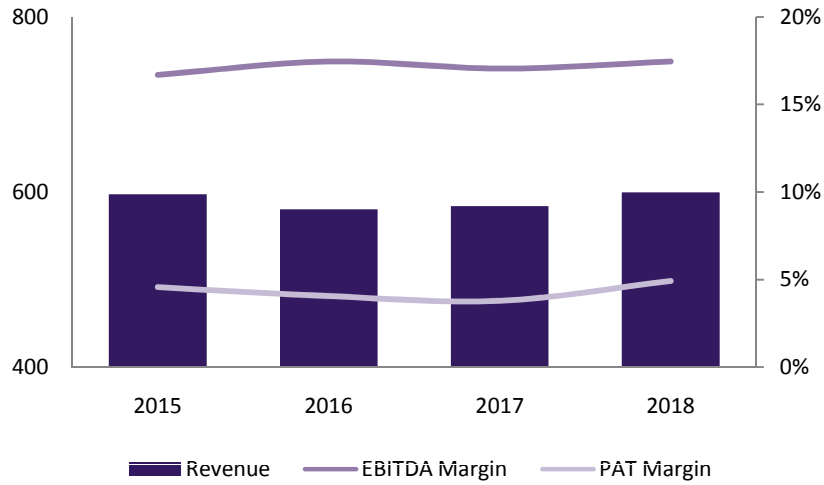
## Future road ahead

- ❑ **Enhance product offering:** KPR Agro will continue to identify related product opportunities based on market trends and intelligence, feedback from its dealer network and identify opportunities in the off-patent chemistry products.
- ❑ **Geographical expansion:** Currently, KPR Agro's products are marketed in the state of Andhra Pradesh, Telangana, Maharashtra, Odisha, Rajasthan, Bihar, Tamil Nadu, Kerala, Karnataka, Punjab, Haryana, Jharkhand and Madhya Pradesh. It intends to expand its reach in these states by appointing more dealers. It also intends to market its products in other parts of India, namely, Uttar Pradesh, Himachal Pradesh, Chhattisgarh and West Bengal thereby increasing its footprint.
- ❑ **Increase market penetration:** To further strengthen KPR Agro's timely supply and availability of products as well as achieve last mile connectivity with the farmers around manufacturing facilities, KPR has set up Kisan Seva Kendras – Company Operated retail stores. Currently, it has these stores in and around the districts of Andhra Pradesh Koppal, including Srikakulam, Vizianagaram, Vishakhapatnam, East and West Godavari and Krishna; in Karnataka around Gadag, Bellary and Raichur districts and in Warangal district of Telangana which are closer to its manufacturing units. Further, to deepen its connectivity as well as expand its reach, KPR Agro will explore the possibility to increase the dealer network across various states in India.

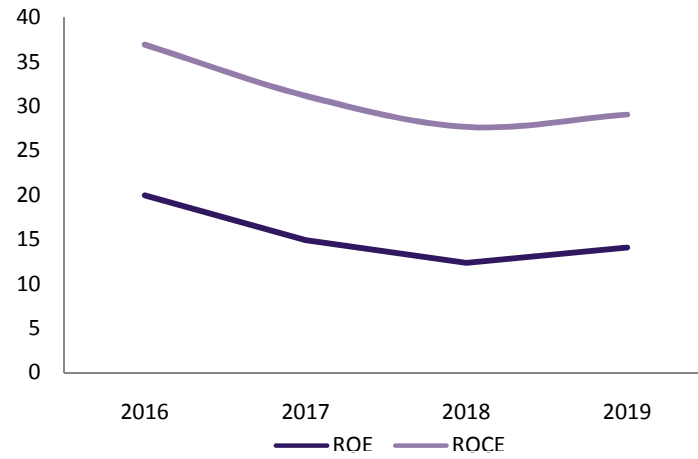
Source: Red Herring Prospectus, Dealmoney research

# Financial Performance

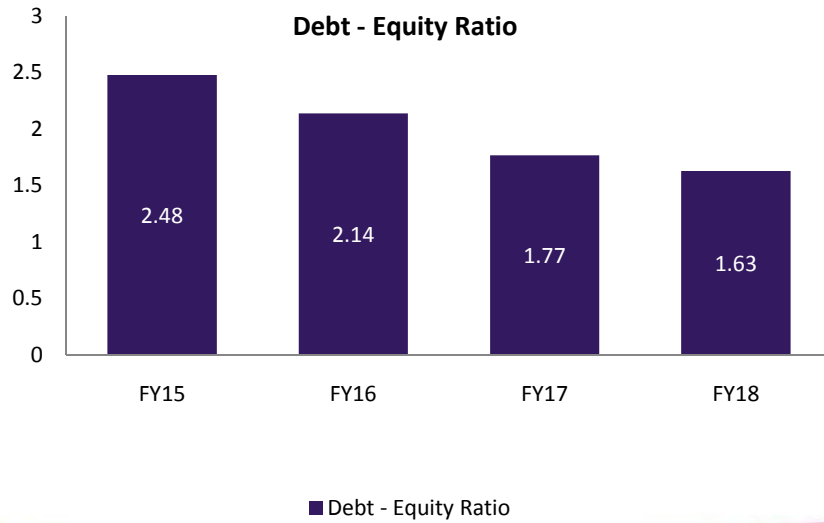
## Financial Metrics



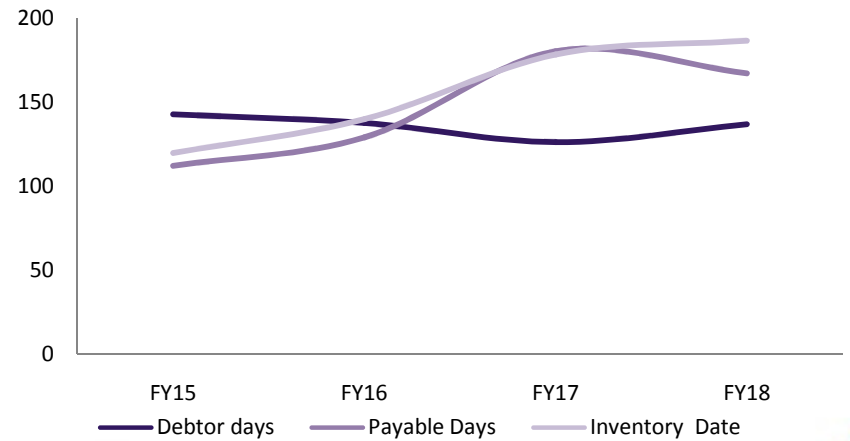
## Return Ratios



## Debt - Equity Ratio



## Working capital Days



## Future road ahead

Company	Revenue	Revenue Growth in 3 years	OPM	PAT	PAT Growth in 3 years	NPM	EPS	P/E	Mcap	RONW
KPR Agro	644	4.44%	18.10%	36	10%	5.70%	3.0	18.4	731	7.9%
Coromandel Int	13261	14.67%	11.10%	720	22.77%	5.40%	25	16.4	11996	21.0%
Chambal Fertilisers	10260	15.51%	12.78%	590	28%	5.80%	14.0	12.4	7239	20.5%
Deepak Fertilizers	6796	6.57%	7.60%	76	-32.00%	1.10%	8	15.6	1109	4.0%
Insecticides India Limited	1076	4.25%	14.20%	84	46%	8.00%	41.0	15.0	1273	15.0%
Dhanuka Agritech	1027	6.82%	16.00%	112	-2.00%	10.90%	23	16.7	1817	17.0%
Aarti Industries Limited	5016	25.89%	19.40%	498	24%	10.00%	59.0	29.9	15306	18.0%

Source: Red Herring Prospectus, Destimoney research

# Consolidated Summary Financials

## Income Statement

₹ mn	Mar-15	Mar-16	Mar-17	Mar-18	Dec-18
Total Income	5,974	5,801	5,837	5,998	4,825
Operating Expense	4,973	4,767	4,882	4,955	3,958
<b>EBIDTA</b>	<b>1,001</b>	<b>1,034</b>	<b>955</b>	<b>1,043</b>	<b>867</b>
Depreciation	143	175	199	208	151
Other Income	31	13	70	10	7
Finance Costs	488	509	550	467	367
<b>PBT</b>	<b>402</b>	<b>363</b>	<b>276</b>	<b>378</b>	<b>356</b>
Exceptional items	(7)	-	-	-	-
<b>Profit before tax</b>	<b>395</b>	<b>363</b>	<b>276</b>	<b>378</b>	<b>356</b>
Current tax (including MAT)	113	120	49	82	81
Deferred tax (including MAT credit entitlement)	-	-	-	-	-
<b>Profit for the year</b>	<b>282</b>	<b>243</b>	<b>227</b>	<b>297</b>	<b>276</b>

## Balance Sheet

₹ mn	Mar-15	Mar-16	Mar-17	Mar-18	Dec-18
<b>Liabilities</b>					
Share capital	855	855	855	855	855
Reserves and surplus	678	869	1,097	1,393	1,669
Non-controlling interest	-	-	-	-	-
Long-Term Borrowings	1,093	672	521	804	618
Deferred tax liabilities(Net)	307	330	320	359	362
Other Long Term Liabilities	-	-	-	-	-
Long term provisions	7	12	14	15	17
Other non-current liabilities	-	-	-	-	-
Short term borrowings	2,388	2,588	2,712	2,521	2,345
Trade payables	1,415	2,042	2,742	1,839	1,851
Other current liabilities	466	596	371	479	409
Other financial liabilities	-	-	-	-	-
Provisions	195	166	103	143	232
<b>Total Liabilities</b>	<b>7,404</b>	<b>8,130</b>	<b>8,734</b>	<b>8,407</b>	<b>8,358</b>
<b>Assets</b>					
Net Block	2,204	2,467	2,458	2,311	2,164
Intangible assets	-	1	1	0	0
Capital work in progress	36	4	1	-	0
Goodwill	4	4	4	4	4
Non current Investments	105	105	105	-	-
Trade receivables	199	383	389	403	439
Loans	15	72	112	127	130
Inventories	1,965	2,634	3,238	2,928	2,905
Current Investments	-	-	-	-	-
Trade receivables	2,532	1,989	2,165	2,356	2,430
Cash and cash equi.	185	188	160	146	132
Other financial assets	153	256	78	106	120
Other current assets	6	27	23	25	34
<b>Total Assets</b>	<b>7,404</b>	<b>8,130</b>	<b>8,734</b>	<b>8,407</b>	<b>8,358</b>

Source: Red Herring Prospectus, Destimoney research



# Key Risks

- ❑ The company is exposed to the price fluctuation risk of our primary raw materials (like rock phosphate and sulphur) which is used for the manufacturing of fertilisers and chemicals. The cost of raw material consumed represented 67.65% and 50.17% of the total revenues in Fiscal 2018 and Fiscal 2017, respectively. These materials are global commodities and their prices are cyclical in nature and fluctuate in accordance with global market conditions. Further, the prices of our commodities are also depending on the demand which may be linked to climatic conditions.
- ❑ Agrochemical business is subject to extensive regulations, environmental and health and safety laws and regulations, which may subject to increased compliance costs. In the past, the relevant authorities have imposed certain fines on the Company and/or Company has paid compounding fees due to inspection of regulatory authorities and towards settling of deficiencies in our products.
- ❑ The strict quality requirements, regular inspections and audits, and any failure to comply with quality standards may lead to cancellation of existing and future orders and could negatively impact reputation and business and results of operations and prospects.

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

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