

Rating: Subscribe

Issue Offer

Fresh Issue of equity shares worth INR 10,040 Mn and an Offer for Sale of 118,507,493 equity shares.

Issue Summary

Price Band (INR)	39-42
Face Value (INR)	10
Implied Market Cap (INR Mn)	34,209
Market Lot (in shares)	350
Issue Opens on	May 17th, 2022
Issue Closes on	May 19th, 2022
No. of share pre-issue	575,450,000
No. of share post issue	814,497,619
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Axis Capital

ICICI Securities

JM Financial

SBI Capital Markets

Registrar

Link Intime India Pvt. Ltd.

Shareholding Pattern

	Pre-Issue	Post- Issue
Promoters & Promoter Group	100.0%	56.1%
Public	0.0%	43.9%

Objects of the issue

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

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Company Profile:

Paradeep Phosphates Ltd. (PPL) was incorporated in 1981. Zuari Maroc Phosphates Pvt. Ltd. (ZMPPL), a joint venture of Zuari Agro Chemicals Ltd. (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. It 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. Paradeep Phosphates Ltd. is in the business of manufacturing, trading, distribution and sales of a variety of complex fertilizers, particularly phosphate-based. It has a manufacturing facility at Paradeep, Odisha which manufactures Di-ammonium Phosphate (DAP), NPK, Sulphuric acid and Phosphoric Acid. It is also acquiring another fertilizer facility in Goa, which includes phosphate-based entities as well as urea.

Investment Rationale:

Dominant player in the phosphate fertilizer category: It is the second largest private sector manufacturer of non-urea fertilizers in India and the second largest private sector manufacturer of Di-Ammonium Phosphate. It has a vast network of dealers and distributors for marketing and distribution of its products. It has an integrated business model with main production facility at Paradeep, which is near the port. As a result, the company has huge economy of scale to compete in the industry.

Capacity acquisition to facilitate volume growth: Current capacity of Paradeep Phosphates is about 1.5 million tons, which includes 1.2 million tons standalone and 0.3 million tons through debottlenecking. It is acquiring a facility at Goa which will double the overall capacity to about 3 million tons. The acquisition is expected to be completed by September 2022. The increased capacity will help higher volume growth for the company and support the top-line.

Raw material security and backward integration: Phosphoric acid and Sulphuric acid are the main raw materials used for the manufacture of phosphate based fertilizers. The company produces its own Phosphoric acid and Sulphuric acid. It is about 70% backward integrated in phosphoric acid and undertaking operations to increase the backward integration to 90%. Phosphate Rock is an important input for manufacturing phosphoric acid and is mainly imported into India. There is availability issue globally for procurement of phosphate rock due to the Russia-Ukraine conflict. However, one of the promoters of Paradeep Phosphates, OCP Group has about 70% of global reserves and has agreement with Paradeep Phosphates for raw material supply. Thus, on an overall basis, the company has raw material security, which will help in sustaining its EBITDA/ton, going forward.

Favorable industry dynamics: Paradeep Phosphates manufactures Di-ammonium phosphate (DAP), which has strong demand in the country. The product is in shortage. India imports about 50% of total Di-ammonium phosphate (DAP) requirement. Post capacity acquisition, the company will increase its production, which will be absorbed in the market due to strong demand.

Valuation and Outlook: At the upper price band of INR 42, the company is valued at a P/E multiple of 11x based on its FY21 EPS of INR 3.9. The company is a major player in the fertilizer sector and is expanding its capacity and backward integration operations. Also, it has raw material security through its promoters. Factoring in the business model, the demand for its products and the company fundamentals, we recommend that long term investors can subscribe to the Initial Public Offering of Paradeep Phosphates Ltd.

About the Business

- Paradeep Phosphates is engaged in the manufacturing, trading, distribution and sales of a variety of complex fertilizers, related to phosphate-based. The main facility is at Paradeep, Odisha and it is acquiring another facility at Goa.
- Its products include the following:
 - Di-Ammonium Phosphate (DAP), Zypmite, Phospho-gypsum, Hydroflorosilicic Acid.
 - Three grades of NPK (NPK 10, NPK-12, and NP-20).
 - Muriate of Potash (MOP), Ammonia, Specialty Plant Nutrients (SPN), City compost.

Key Risks

- The company is related to the agriculture sector and is therefore dependent on its performance. Any slowdown in the agriculture sector due to natural causes like drought, climate change, etc. can adversely impact the performance of the sector and reduce demand for the products of the company.
- The fertilizer sector in India is regulated by the Government of India. It updates its policies from time to time depending upon data and different scenarios in the agriculture sector. Any change in the policies of the Government like the reduction of subsidies and incentives to the farming community can negatively impact the demand for fertilizers.
- The company imports certain raw materials like Phosphate Rock for manufacturing Phosphoric Acid. Any supply disruption or logistical issues owing to international conflict or external environment can hamper raw material availability.

Peer Comparison:

Peer Companies	Revenue (INR, Mn)	Face Value (INR)	P/E (x)	EPS (INR)	Return on NetWorth	NAV per equity share
Paradeep Phosphates Ltd.	51,647	10	NA	3.9	12.2%	32
Coromandel International Ltd.	1,42,570	1	19.5	45.2	25.8%	176
Chambal Fertilizers & Chemicals Ltd.	1,27,564	10	9.8	39.8	33.3%	126
Deepak Fertilizers and Petrochemicals Ltd.	58,412	10	13.6	39.2	15.1%	263

Source: RHP, Arihant Capital Research, Financials are as of 31st March 2021

Management

Key Person	Description
Narayanan Suresh Krishnan	He is the Executive Director and the Managing Director of Paradeep Phosphates Ltd. He holds a bachelor's degree in engineering and a master's degree in science from the Birla Institute of Technology and Science, Pilani. He has been part of the Adventz Group and related companies for over two decades. His functional experience is across corporate finance, corporate strategy, projects planning, operations and business developments.
Ujjwal Kumar	He is a Non-executive Director of the company. He holds a bachelor's degree in science from Ranchi University. He has served in various departments and ministries of Government of India including Armed Forces Headquarters, Ministry of Defence, Ministry of Home Affairs, Ministry of Corporate Affairs, Department of Expenditure and Department of Economic Affairs. At present, he is serving as the Deputy Secretary, Department of Fertilizers, Ministry of Chemicals and Fertilizers, Government of India.
Soual Mohamed	He is a Non-executive Director of the company. He holds an engineering degree in the electronics stream from the National School of Civil Aviation, Toulouse, France. He has also completed a certificate programme in accelerated general management from HEC Paris, France. He currently holds a full time position as the adviser to the chief executive officer and chief economist of OCP, Morocco.
Satyananda Mishra	He is an Independent Director of the company. He holds a bachelor's and master's degree in English from Utkal University. He is a retired officer from the Indian Administrative Services department of the batch of 1973. He has served as chairman of the Multi-Commodity Exchange of India Ltd. and as an independent director of SIDBI. At present, he is serving as a director on the boards of REVA University, Bangalore and the National Foundation of India.

Source: RHP, Arihant Capital Research

Financial Performance:

Consolidated Income Statement (INR Mn)				Consolidated Balance Sheet (INR Mn)			
	2019	2020	2021		2019	2020	2021
Revenue From Operations	43,579	41,929	51,647	ASSETS			
Other Income	393	349	192	Non-Current Assets			
Total Revenue	43,972	42,278	51,839	Property, Plant and Equipment	12,782	13,617	14,452
Raw Material Consumed	28,476	22,101	22,651	Intangible Assets	10	14	11
Purchase of traded goods	8,391	4,754	13,802	Equity accounted investment	0	31	28
Changes in inventories	-5,624	2,586	2,258	Other income tax assets	212	215	125
Employee Benefit	1,306	1,319	1,392	Other non-current assets	119	174	232
Finance Costs	1,593	1,918	1,114	Total Non- Current Assets	13,123	14,051	14,847
Depreciation and Amortisation	701	725	833	Current Assets			
Other Expenses	6,615	6,571	6,121	Inventories	14,218	10,785	8,991
Total Expenses	41,457	39,974	48,172	Investments	0	0	1,220
Profit Before Exceptional Items and Tax	2,515	2,304	3,667	Trade Receivables	23,421	21,489	11,556
Share of net loss of associate	-1	-8	-2	Cash and Cash Equivalents	187	40	915
Profit Before Tax	2,514	2,296	3,665	Bank Balances	14	17	17
Total Tax Expense	924	363	1,432	Other financial assets	1,264	1,437	1,959
Profit After Tax	1,590	1,932	2,233	Other current assets	4,046	2,281	4,724
Basic EPS (INR)	2.8	3.4	3.9	Assets classified as held for sale	2	2	2
Diluted EPS (INR)	2.8	3.4	3.9	Total Current Assets	43,154	36,052	29,384
				TOTAL ASSETS	56,277	50,103	44,232
				EQUITY AND LIABILITIES			
				Equity			
				Equity Share Capital	5,755	5,755	5,755
				Other Equity	9,073	10,281	12,521
				Total Equity	14,827	16,035	18,275
				Liabilities			
				Non-Current Liabilities			
				Financial Liabilities	2,198	1,396	1,135
				Provisions	194	271	198
				Deferred tax liabilities (net)	264	219	930
				Total Non- Current Liabilities	2,656	1,885	2,263
				Current Liabilities			
				Borrowings	28,349	20,791	10,617
				Trade Payables	7,079	8,061	9,395
				Other financial liabilities	1,775	1,404	1,585
				Other Current Liabilities	879	1,032	1,264
				Provisions	676	756	830
				Current Tax Liabilities	35	138	2
				Total Current Liabilities	38,793	32,183	23,694
				TOTAL EQUITY AND LIABILITIES	56,277	50,103	44,232

Consolidated Cash Flow Statement (INR Mn)			
	2019	2020	2021
Cash Flow From Operations	(9,204)	12,697	15,011
Cash Flow From Investing Activities	(1,032)	(1,432)	(2,893)
Cash Flow From Financing Activities	10,184	(11,412)	(11,244)
Net Cash Generated during the period	(52)	(147)	874
Cash and Cash Equivalents at the beginning of the period	239	187	41
Cash and Cash Equivalents at the end of the period	187	40	915

Source: RHP, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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