



IPO Report

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21st June 21

Snapshot

India Pesticides is an R&D driven agro-chemical manufacturer of Technicals with a growing Formulations business, and is one of the fastest growing agro-chemical companies in terms of volume of Technicals manufactured.

VALUATION

IPL is bringing the issue at price band of Rs 290-296 per share at p/e multiple 25 on post issue FY21 eps basis. We like the financial performance posted by company with healthy balance sheet status. As 19 Technicals are expected to go off-patent between 2019 and 2026 and an opportunity size of over US\$ 4.2 billion is expected due to this by 2026 which company is well poised to cater.

As for its technical product, company is globally cost competitive which helps company in posting superior margins.

With company's focus on increasing its product portfolio, expanding geographical presence, onboarding more customers for newer molecules apart from molecules which are under implementation & already lined up as some of them will be going on stream sometime in Sept /Oct, future prospects of company looks strong.

Hence we recommend "Subscribe" on issue both for listing gain & long term purpose.

Price Band (Rs./Share)	Rs 290-296
Opening date of the issue	23 rd June 2021
Closing Date of the issue	25 th June 2021
No of shares pre issue	111,785,130 Eq Shares
Fresh Issue (Rs)	Rs 100 Cr
Offer For Sale (Rs)	Rs 700 Cr
Issue size (Rs. Cr)	Rs 800 Cr
Face Value (Rs/ share)	1
Bid Lot	50

Book Building

QIBs (Including Anchor)	50% of the offer (Approx. 13,513,512 Shares)
Non-Institutional	15% of the offer (Approx. 4,054,054 Shares)
Retail	35% of the offer (Approx. 9,459,460 Shares)
Lead managers	Axis Capital JM Financial Ltd
Registrar to the issue	KFIN Technologies Private Ltd.

Research Analyst: Astha Jain

WHAT WE LIKE

Strong R&D and product development capabilities

IPL have substantial experience in undertaking R&D activities as part of its manufacturing operations. Company's analytical capabilities include critical quality control measures, non GLP-5 batch analysis, stability studies, method validation and method development. With 19 Technicals are expected to go off patent protection, as a result, the demand for these Technicals globally is expected to increase, particularly in regulated markets. With a number of products coming off patent, there will be significant opportunities to develop a number of off-patent/generic active intermediates. Company intend to continue to leverage company's R&D capabilities and manufacturing expertise and focus its investment in process innovation.

Long-term relationship with key customers

IPL's major customers include multinational corporations that look to collaborate with active ingredient manufacturers in India, leveraging their cost effective manufacturing supported by cheaper labour force and stronger. Several of IPL's customers have been associated with company for over 10 years and certain of company's key customers include crop protection majors, such as, Syngenta Asia Pacific Pte. Ltd. and UPL Limited. R&D capabilities.

Consistent track record of financial performance

IPL's total revenue from operations increased by 90.48% from ₹ 3,406.88 million in Fiscal 2019 to ₹ 6,489.54 million in Fiscal 2021. Company have been able to maintain its debt position and company's long term debt to equity ratio was 0.09, 0.06 and 0.02 as of March 31, 2019, 2020 and 2021. During Fiscals 2019, 2020 and 2021, company's ROCE was 32.33%, 35.82% and 45.18%, respectively, while its ROE was 23.46%, 27.48% and 34.63%, respectively. IPL's strong operating ratios and its healthy debt equity ratio have allowed company to grow its operations and will allow it to pursue other growth opportunities and fund strategic initiatives. In addition, company's EBITDA margin was 20.73%, 21.61% and 29.20%, respectively, for similar periods. This indicates strength in financials of company.



COMPANY BACKGROUND

Company is growing agro-chemicals company in terms of volume of Technicals manufactured. IPL have recorded 37.17% year-on year growth in Technicals manufacturing (by volume) between Fiscal 2020 and Fiscal 2021, reaching more than 75% plant operating rate. IPL manufactured 15,003 MT of Technicals in Fiscal 2021. Company is the sole Indian manufacturer of five Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. Since commencing operations in 1984, company have diversified into manufacturing herbicide and fungicide Technicals and active pharmaceutical ingredients ("APIs"). Company also manufacture herbicide, insecticide and fungicide Formulations.

MANUFACTURING FACILITIES

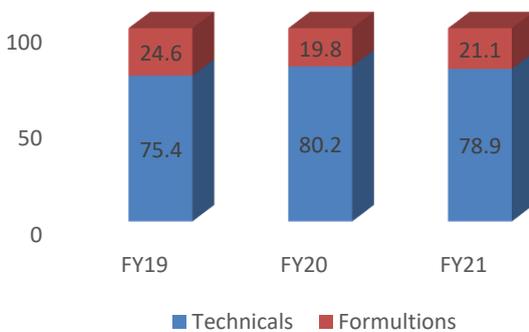
IPL currently have two manufacturing facilities located at UPSIDC Industrial Area at Dewa Road, Lucknow and Sandila, Hardoi in Uttar Pradesh, India that are spread across over 25 acres. As of March 31, 2021, company's aggregate installed capacity of its manufacturing facilities for agro-chemical Technicals was 19,500 MT and Formulations was 6,500 MT. Company manufactured 15,003 MT of Technicals in Fiscal 2021. IPL's manufacturing facilities are equipped with modern plant and machinery capable of producing quality Technicals and Formulations. Company's manufacturing facilities at Dewa Road are ISO 9001: 2015, ISO 14001:2015, ISO 10002: 2018, and ISO 45001: 2018 (OHSAS) certified and at Sandila are ISO 9001: 2015, ISO 14001: 2015, ISO 10002: 2018 and OHSAS 18001: 2007 certified for quality management system, environment management system, customer satisfaction and complaint management system, and occupational health and safety management system, respectively.

BUSINESSES

Company have two distinct operating verticals, namely, Technicals and Formulations. The following table sets forth the revenue from operations contributed by each of company's verticals in the percentage of company's total revenue from sale of products for the periods indicated.

Segment Revenues (%)

CAGR (FY19-21)
Technicals 40.5%
Formulations 27.5%



Agro-chemical Technicals

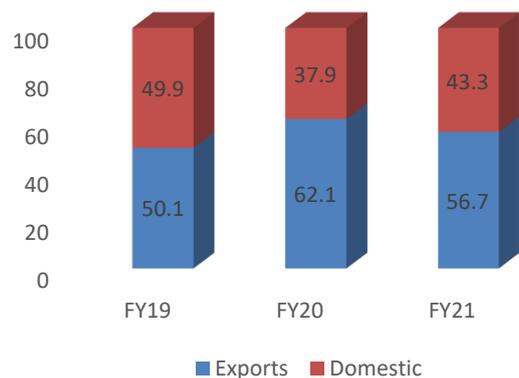
Herbicides Fungicides APIs

Installed Capacity (MT)	FY19	FY20	FY21
Dewa Road	2100	2100	2100
Sandila	7900	12400	17400
Total	10,000	14,500	19,500

Formulations

Installed Capacity (MT)	FY19	FY20	FY21
Dewa Road	3000	3000	3000
Sandila	3000	3500	3500
Total	6,000	6,500	6,500

Export Mix in Revenues %





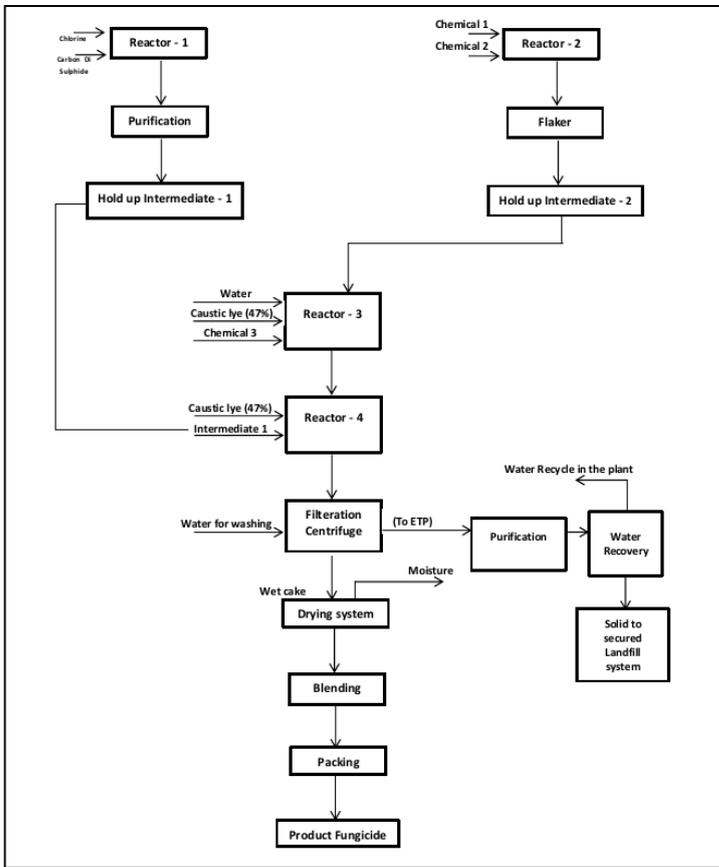
INVESTMENT RATIONALE

<p>Diverse Product Portfolio</p>	<p>Company’s product portfolio has been diversified over the years and the IPL has grown into a multi-product manufacturer of formulations, herbicides and fungicides Technicals as well as APIs. Diversification across products and sectors has allowed de-risking of business operations. Company’s products are exported to regulated markets such as Australia and countries in Europe, Africa and Asia. Diversified product portfolio allows for limited dependence on individual products and helps counter seasonal trends, that are a challenge for agriculture industry in India</p>
<p>Strong R&D and Product Development Capabilities</p>	<p>R&D team of company comprises PhDs, masters graduates in chemistry and a biotechnological engineer .Company has 2 well-equipped R&D laboratories, each registered with DSIR . IPL Currently in the process of developing processes for certain Technicals, including 2 fungicides, 2 herbicides, 2 insecticides and 2 intermediates . Company Commenced construction of 2 manufacturing units at the Sandila facility that are proposed to be used for herbicide Technicals. R&D enables company to identify higher margin products that require specialized manufacturing and handling capabilities . Since 2018, the R&D efforts of company have resulted in development of processes for products that are not highly toxic and commercialization of 3 Technicals which contributed 42.13% of revenue from operations in Fiscal 2021</p>
<p>Strong Financials</p>	<p>IPL have demonstrated consistent growth in terms of revenues and profitability over the last three Fiscals. IPL’s total revenue from operations increased by 90.48% from ₹ 3,406.88 million in Fiscal 2019 to ₹ 6,489.54 million in Fiscal 2021. Company have witnessed consistent improvement in its balance sheet position over the last three Fiscals and net worth has increased from ₹ 1,870.20 million in Fiscal 2019 to ₹ 3,894.79 million in Fiscal 2021. IPL have been able to maintain its debt position and company’s long term debt to equity ratio was 0.09, 0.06 and 0.02 as of March 31, 2019, 2020 and 2021. During Fiscals 2019, 2020 and 2021, IPL’s ROCE was 32.33%, 35.82% and 45.18%, respectively, while ROE was 23.46%, 27.48% and 34.63%, respectively. IPL’s strong operating ratios and its healthy debt equity ratio have allowed company to grow its operations and will allow company to pursue other growth opportunities and fund strategic initiatives. In addition, IPL’s EBITDA for Fiscals 2019, 2020 and 2021 was ₹ 706.34 million, ₹ 1,036.56 million and ₹ 1,894.91 million, respectively while company’s EBITDA margin was 20.73%, 21.61% and 29.20%, respectively, for similar periods.</p>
<p>Strong Sourcing Capabilities & Extensive Distribution Network</p>	<p>Company has strong sourcing capabilities with limited reliance on Imports. IPL’s raw materials imported from China as a percentage of total raw material purchases was 30.29% in Fiscal 2021. In Fiscals 2019, 2020 and 2021, 64.98%, 65.44% and 61.96% of company’s raw materials were sourced locally. As of March 31, 2021, IPL have a network of over 20 sales depot consisting of branches, carrying and forwarding agents, and warehouses spread across 15 states in India and its distribution network comprised a number of dealers and distribution partners across India.</p>

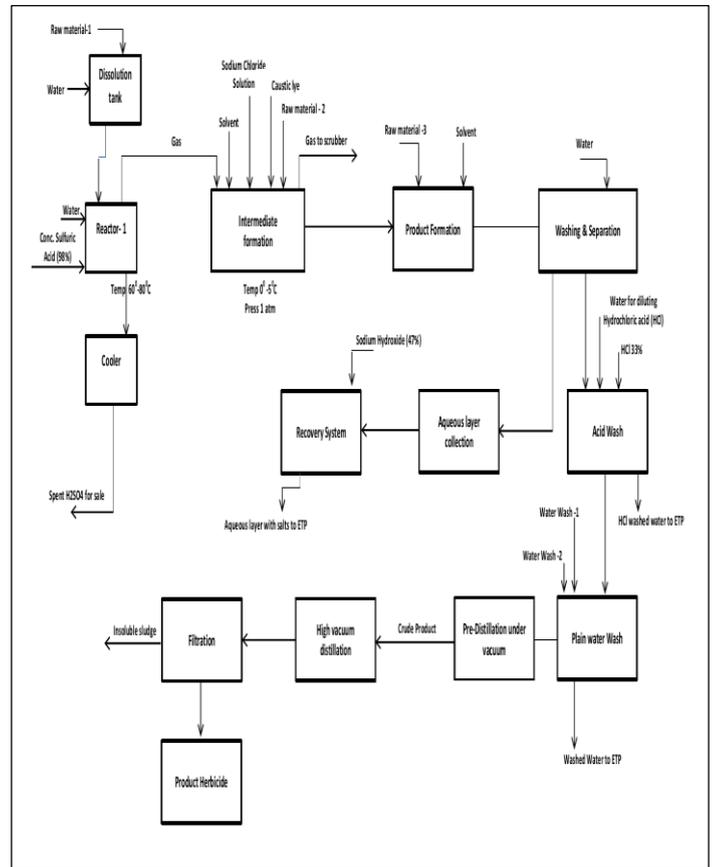


MANUFACTURING PROCESS

For Fungicide Technicals



For Thiocarbamate herbicides



OBJECTS OF ISSUE

Fresh Issue

Company proposes to utilise the net proceeds towards funding of the following objects:

1. Funding working capital requirements of company; and
2. General corporate purposes

RISKS

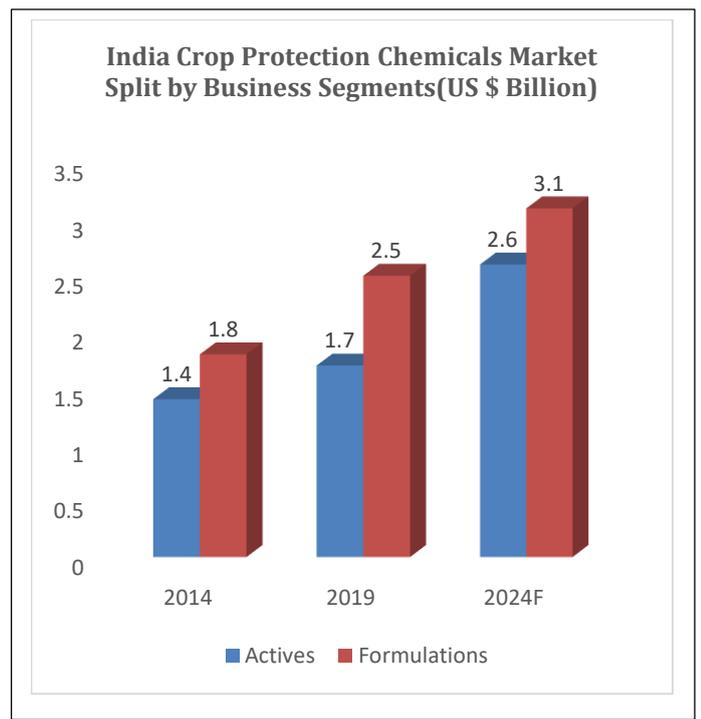
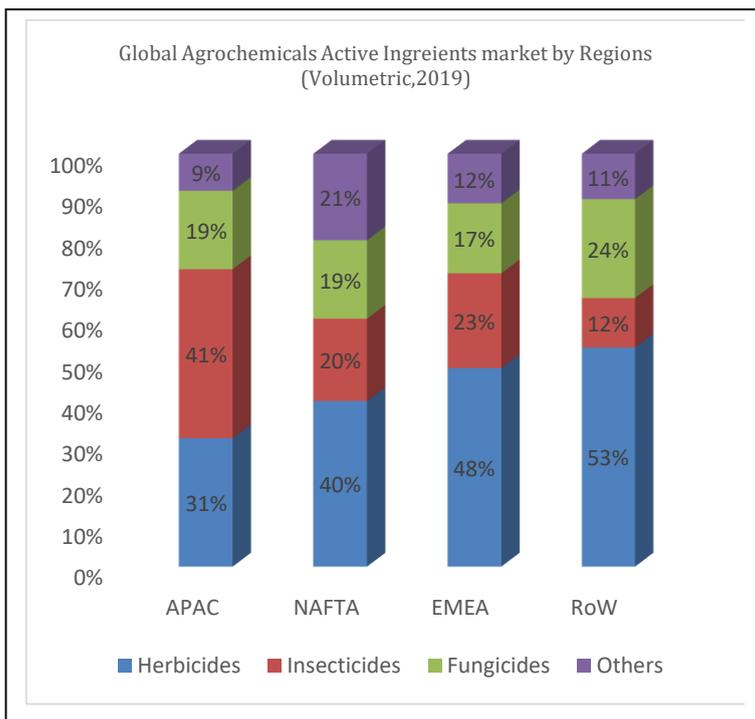
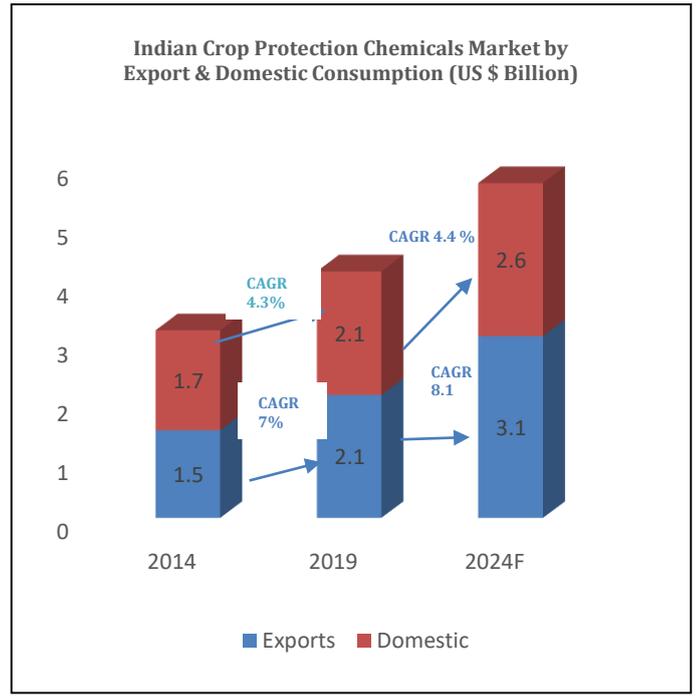
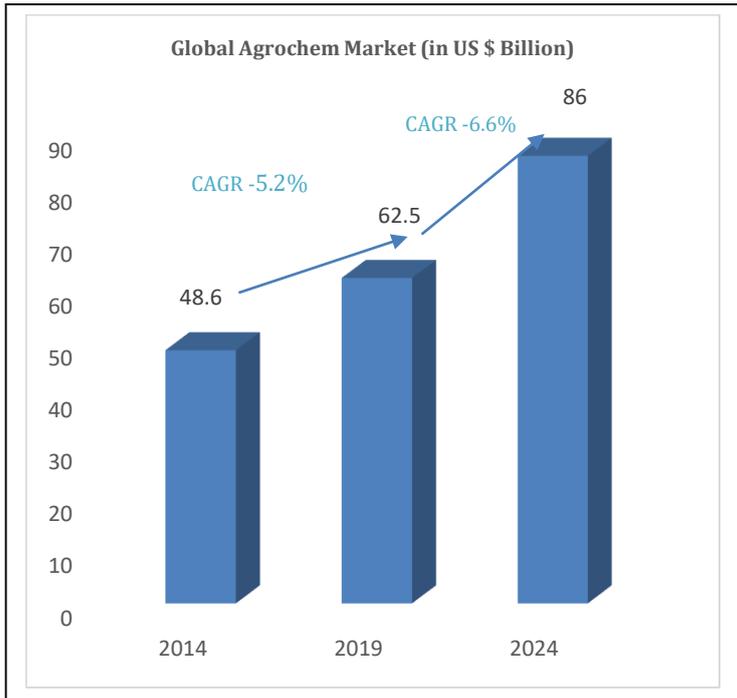
IPL require certain approvals and licenses in the ordinary course of business, including certain registrations from the Central Insecticides Board and Registration Committee (“CIBRC”) for its products manufactured and sold in India as well as for exports to other jurisdictions. Any failure to successfully obtain such registrations or renew or maintain its statutory and regulatory permits and approvals required to operate its business and manufacturing facilities would adversely affect company’s operations, results of operations and financial condition.



INDUSTRY OVERVIEW

Key Demand Drivers for technical market

- Supply chain interruptions with China on account of Covid-19 crisis
- Incentive program by the Government of India for manufacturing of actives
- Increase in export led demand
- Need for increase in crop yield and crop mix



Source: RHP



Financials

(Rs. In Mn)

Balance Sheet	FY21	FY20	FY19
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share Capital	111.79	31.83	31.83
Reserves & Surplus	3783.20	2536.56	1838.37
Total (A)	3894.99	2568.39	1870.20
Non-Current Liabilities			
Long Term Borrowings	74.49	104.44	112.64
Deferred Tax Liabilities (Net)	81.03	73.05	75.86
Other Non Current Liabilities	8.02	6.49	3.66
Total (B)	163.54	183.98	192.16
Current Liabilities			
Short Term Borrowings	225.08	135.45	437.73
Trade Payables	740.47	615.42	548.96
Other Current Liabilities	114.91	153.25	123.02
Short Term Provisions	31.81	0.53	0.3
Total (C)	1112.27	904.65	1110.01
Total (A+B+C)	5170.80	3657.02	3172.37
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	1199.92	950.01	697.6
Rights of use assets	43.54	42.56	
Capital WIP	118.85	11.57	47.46
Intangible Assets	1.22	1.65	1.99
Intangible Assets under development			2.55
Non-Current Investments	99.05	30.37	30.62
Other financial assets	28.49	48.84	37.85
Deferred Tax Assets (Net)			
Other Non-Current Assets	11.53	20.62	19.92
Total (A)	1502.6	1105.62	837.99
Current Assets			
Trade Receivables	2142.2	1831.74	1783.13
Cash and Cash equivalents	19.07	67.17	16.3
Other Financial Assets	1.16	6.75	9.68
Short-Term Loans and Advances			
Inventories	700.79	385.73	355.28
Other Current Assets	804.98	260.01	169.99
Total (B)	3668.2	2551.4	2334.38
Total (A+B)	5170.80	3657.02	3172.37



(Rs in Mn)

P&L	FY21	FY20	FY19
Total Revenue (A)	6489.54	4796.27	3406.88
Total Expenditure (B)	4658.60	3860.71	2754.08
EBIDTA	1830.94	935.56	652.80
EBIDTA Margin	28.21	19.51	19.16
Other Income	64.23	101.00	53.54
Depreciation	61.35	50.69	39.58
EBIT	1833.82	985.87	666.76
Interest	34.33	52.18	55.76
PBT	1799.23	933.69	611.00
Tax	454.17	225.70	171.79
PAT	1345.32	707.99	439.21
NPM	20.73	14.76	12.89
ROE %	34.54	27.57	23.48
EPS	12.00	22.24	13.80
BV	34.84	80.69	58.76

PEERS ANALYSIS

Following is peer group analysis:

Company Name	Total Revenue (Mn)	EPS	NAV	RONW %
Dhanuka Agritech	11451.59	29.71	148.72	19.45
Bharat Rasayan Ltd	12318.70	371.03	1327.73	27.83
UPL Ltd	358600	23.24	252.37	9.95
Rallis India	22861.50	9.51	72.48	12.90
PI Industries	34154.00	33.05	189.64	15.31
Sumitomo Chemicals	24354.57	4.10	24.48	16.34
Atul Ltd	41711.00	224.69	1063.63	19.26
India Pesticides Ltd	6553.77	12.00	34.84	34.54

(Source RHP)



Rs in Mn)

Cash Flow Statement	FY21	FY20	FY19
(A) Cash Flow from operating Activities:	832.94	751.50	(33.79)
B) Cash Flow From Investing activities:	(840.20)	(310.70)	(6.37)
C) Cash Flow From Financing Activities:	(40.85)	(389.93)	92.94
Net increase/(Decrease) in cash & cash equivalents(A+B+C)	(48.10)	50.87	(7.22)
Cash equivalents at the beginning of the year	67.17	16.30	23.52
Cash equivalents at the end of the year	19.07	67.17	16.30



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