

Retail Research	IPO Note
Sector: Construction & Farm Equipment	Price Band (Rs): 204 - 215
30 <sup>th</sup> December 2024	Recommendation: Subscribe for Long-Term Investment Horizon

## Indo Farm Equipment Ltd.

### Company Overview:

**Indo Farm Equipment Limited (IFEL)**, established in 1994, is a leading manufacturer of tractors and pick-and-carry cranes. The company's tractor are sold under the brand name of Indo Farm and cranes under the brand name of Indo Power. The company also offers agricultural equipment like harvester combines and rotavators, though these make up a small portion of its revenue. IFEL generates ~93% sales from domestic market and 7% from export market. As of Sep'24, the company has a production capacity to manufacture 12,000 tractors and 1,280 pick & carry cranes per annum.

### Key Highlights:

**1. Wide range of product offerings:** The company offers a range of tractors from 16 HP to 110 HP in 2WD and 4WD options, meeting about 80% of global market needs, particularly for 4WD models. The company's 65, 75, 90, and 110 HP tractors are designed for export to regions like Africa, Latin America, and the Middle East, while 1,026 model (26 HP) is tailored for the European market. Additionally, the company manufactures Pick & Carry Cranes used widely in engineering, construction and infrastructure. The company's cranes capacities varies from 9 tons to 30 tons in both 2WD and 4WD.

**2. Dealer network & Salesforce:** While the company has a strong presence in North India, it intends to leverage brand visibility and expand its presence PAN India. As of Jun'24, the company has 159 registered dealers for tractors and 16 registered dealers for cranes, including 12 dealers for spares and services across India. The company's dealerships are fully equipped for sales, service & spares. The company intends to increase its dealer base to 500+ in the next three years.

**3. Integrated manufacturing facility:** The company's manufacturing facilities are equipped with induction furnaces, pneumatic molding machines, an automatic molding line, and a Metallurgy and Sand Testing Laboratory, among others. This integrated approach allows the company to manufacture critical machine components in-house, reducing reliance on third parties and improving production efficiency. As of Sep'24, the company has an annual capacity to produce 12,000 tractors and 1,280 Pick & Carry cranes annually. Additionally, the company has acquired land for a new Pick & Carry crane manufacturing unit, which will increase the capacity by 3,600 units per year. The company's 40% of the tractor and 60% of the crane components by value are manufactured in-house.

**4. Own NBFC for tractor financing:** The company launched an in-house NBFC company in 2017 to provide tractor finance for buyers through a subsidiary entity Barota Finance Limited. As of Jun'24, the company's NBFC had a total loan book (vehicle finance) of Rs 127.2 cr and served over 5,900 active customers. As of Jun'24, the NBFC subsidiary has Gross and Net NPA of 4.13% and 3.00% respectively which the management believes is competitive compared with the companies operating in only tractor financing.

**Valuation:** At the upper price band of Rs 215, the company is valued at FY24 P/E and EV/EBITDA multiples of 66.2x and 17.9x respectively on post issue capital. On the financials side, the company's Sales/EBITDA/PAT has shown a slightly slower CAGR growth of 3.2%/9.5%/6.6% respectively over FY22-24 period, however, they have grown on a consistent basis. Also, the company's Pick & Carry cranes sales have grown at a CAGR of ~45% in the last 3 years with plant operating at close to full capacity. IFEL's planned expansion of 3,600 units of cranes per annum is likely to start contributing from 2HFY26 onwards. The company will also double capital base of its NBFC subsidiary which will help improve its tractor sales performance. We recommend investors to subscribe to the issue at cut-off price for long term investment.

Issue Details	
Date of Opening	31 <sup>st</sup> December 2024
Date of Closing	2 <sup>nd</sup> January 2025
Price Band (Rs)	204 - 215
Offer for sale (shares)	35,00,000 (Rs 75 cr @ upper price band)
Fresh Issue (shares)	86,00,000 (Rs 185 cr @ upper price band)
Issue Size (Rs cr)	247 - 260
No. of shares	1,21,00,000
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	980 – 1,033
BRLMs	Aryaman Financial Services Ltd.
Registrar	MAS Services Ltd.
Bid Lot	69 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Total amount to be funded from Net Proceeds
Setting up new dedicated unit for expansion of Pick & Carry Cranes manufacturing capacity	70.1
Repayment or pre-payment, in full or part, of certain borrowings availed by the company	50.0
Further investment in NBFC subsidiary (Barota Finance Ltd.) for financing the augmentation of its capital base to meet its future capital requirements	45.0
General corporate purposes*	-
<b>Total proceeds from fresh issue</b>	<b>185.0</b>

\*Visit RHP page no 90 to get the detailed information on Objective of Issue.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	3,68,67,640	93.5
Public & Others	25,83,960	6.5
<b>Total</b>	<b>3,94,51,600</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	3,33,67,640	69.4
Public & Others	1,46,83,960	30.6
<b>Total</b>	<b>4,80,51,600</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	3,33,67,640	69.4
Public & Others	1,46,83,960	30.6
<b>Total</b>	<b>4,80,51,600</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Rs cr	FY22	FY23	FY24	1QFY25
Revenue from operation	352.1	370.8	375.2	75.0
EBITDA	51.6	57.7	61.8	12.1
PAT	13.7	15.4	15.6	2.5
EBITDA Margin (%)	14.7	15.6	16.5	16.1
PAT Margin (%)	3.9	4.1	4.2	3.3
ROE (%)	5.0	5.3	4.9	-
ROCE (%)	7.8	8.7	8.9	-
PE (x)*	61.8	55.2	54.4	-

Source: RHP, SSL Research

\*Valuation ratios are based on pre-issue share capital

## Risk Factors

- **Revenue concentration:** The company derives a significant portion of its revenue from the sale of tractors (~52.2% of FY24 sales) & Pick & Carry cranes (~47.8% of FY24 sales). Any reduction in demand of such products could have an adverse effect on the business, results of operations and financial condition of the company.
- **Failure to obtain, renew or maintain regulatory licenses:** If the company is not able to obtain, renew or maintain the statutory and regulatory licenses, registrations and approvals required to operate the business, it may have a material adverse effect on the business and results of operations.
- **Delay in setting up new manufacturing facility:** The company's proposed expansion plans regarding new manufacturing facilities being set up are subject to the risk of unanticipated delays in implementation and cost overruns.
- **Capacity utilization:** Average capacity utilization for FY22 to FY24 is 32% for tractors and 87% for cranes. Under-utilization of the manufacturing capacities and an inability to effectively utilize the expanded manufacturing capacities could have an adverse effect on the business, future prospects and future financial performance.
- **No confirmed order book for the additional capacity of production:** The capacity expansion for the manufacturing of Pick & Carry cranes is based on the expected domestic demand in India with no confirmed order book for the additional production. Also, sales are concentrated primarily in India making it vulnerable to market fluctuations, regulatory changes, and economic downturns.

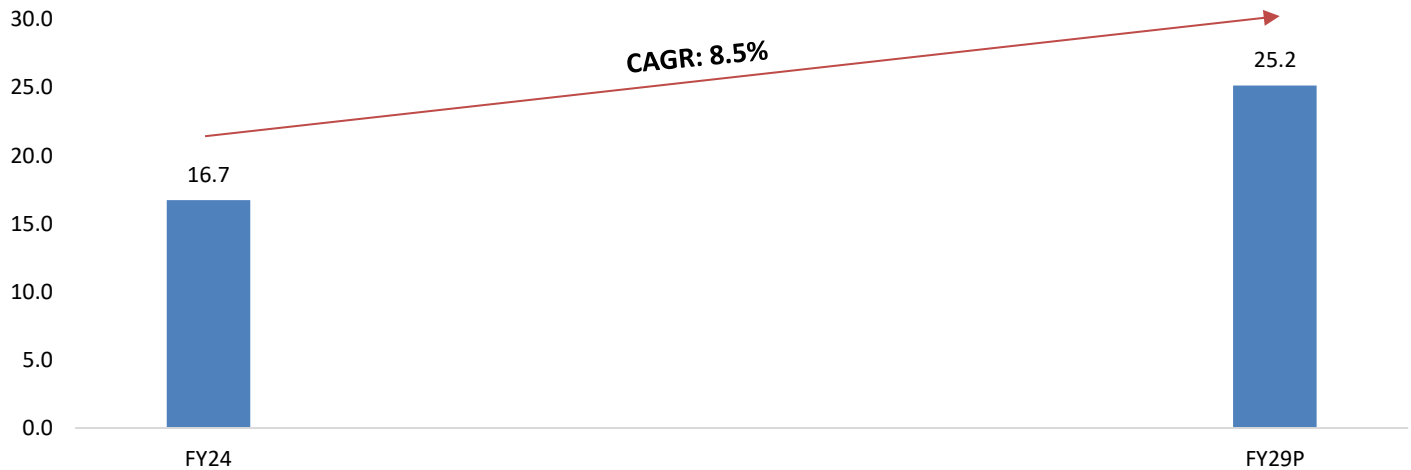
## Growth Strategies

- Augment capital base of NBFC subsidiary to scale and expand business operations.
- Reduce debt levels and improve debt-to-equity ratio.
- Focus on the niche market of Pick and Carry Cranes.
- Augment dealer network and sales force.

## Industry Overview

**Indian farm equipment market is expected to grow at a CAGR of 8.5% between FY24-FY29P:** The Indian agricultural equipment sector has historically experienced significant growth, and this trend is expected to continue in the coming years. This growth will primarily be driven by the demand for tractors and will be supported by various initiatives from the Government of India. Other factors contributing to the demand include a shortage of labor, increased access to credit, rising farmers' incomes, low penetration of farm machinery, the emergence of contract farming, and the adoption of precision farming techniques. As of 2024, the size of the Indian Agricultural Machinery Market is approximately USD 16.73 bn, and it is projected to grow to USD 25.15 bn by 2029, with a CAGR of 8.5%.

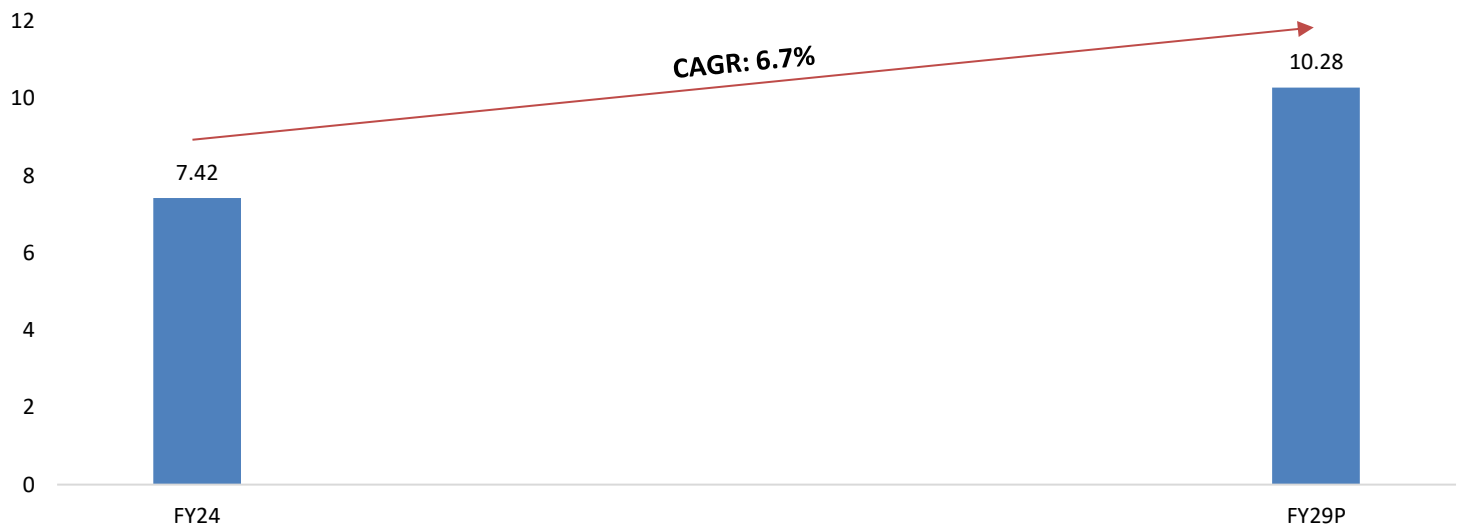
### Domestic Farm Equipment Market (USD bn)



Source: RHP, SSL Research

**Indian agriculture tractor market is expected to grow at a CAGR of 6.7% between FY24-FY29P:** India is one of the largest tractor producing countries in the world. Indian tractor market has been growing over the years and the growth momentum is expected to continue going forward as well. This growth will be fueled by various initiatives of Govt. of India to boost agricultural productivity. Various other demand drivers such as shortage of labour, increased availability of credit, increase in farmers' income, lower penetration of farm machinery will help the Indian agriculture tractor market going ahead. The Indian agricultural tractor market size is estimated at USD 7.42 bn in 2024 and it is expected to reach USD 10.28 bn by 2029, a CAGR of 6.7%

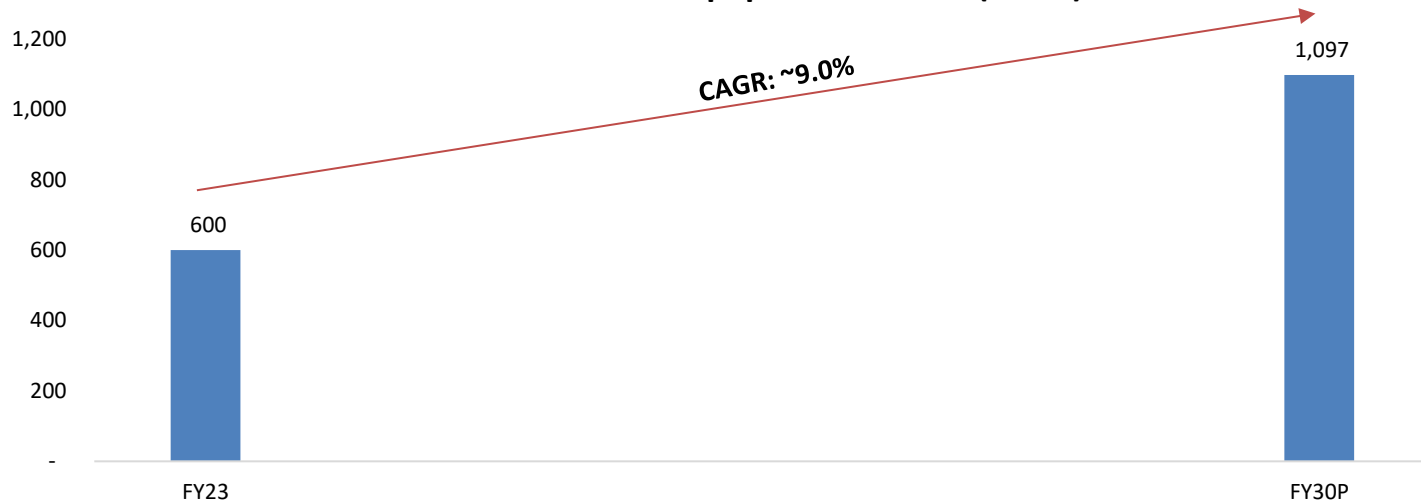
### Indian Agriculture Tractor Market (USD bn)



Source: RHP, SSL Research

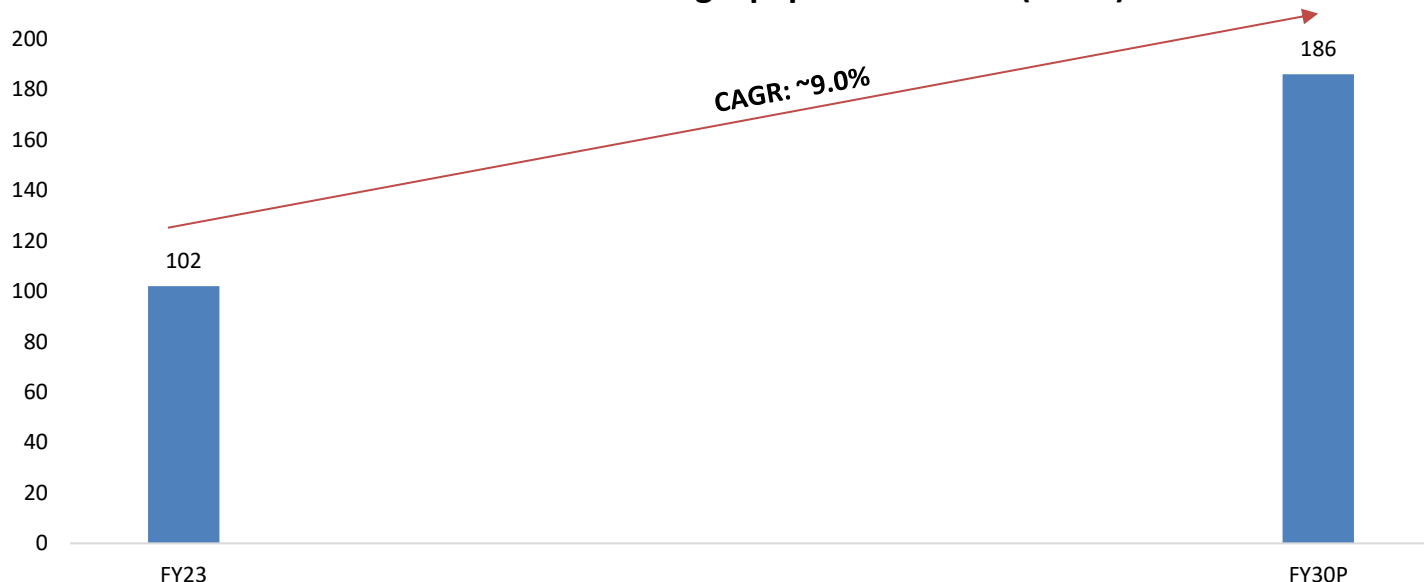
**Indian construction equipment market and material handling equipment market is expected to grow at a CAGR of 9.0%/9.0% between FY23-FY30P:** Various demand drivers supporting the growth in the Indian construction and material handling equipment market includes huge focus in infrastructure development and construction in the country, construction of new cities and increased real estate development in Tier 2 and Tier 3 cities, mechanization of construction industry, increased utilization in manufacturing and other sectors, availability of equipment finance and rental options.

### Indian Construction Equipment Market (Rs bn)



Source: RHP, SSL Research

### Indian Material Handling Equipment Market (Rs bn)



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
Revenue from Operations	352	371	375
YoY growth (%)	-	5.3%	1.2%
Cost Of Revenues (incl Stock Adj)	200	226	221
Gross Profit	152	145	155
Gross margin (%)	43.3%	39.2%	41.2%
Employee Cost	37	42	46
Other Operating Expenses	64	45	47
EBITDA	52	58	62
EBITDA margin (%)	14.7%	15.6%	16.5%
Other Income	0	1	1
Interest Exp.	24	28	28
Depreciation	9	9	10
PBT	19	22	24
Exceptional item	-	-	-
Tax	6	7	8
PAT	14	15	16
PAT margin (%)	3.9%	4.1%	4.2%
EPS (Rs)	3.5	3.9	4.0

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	190	200	197
Capital WIP	20	8	5
Intangible Assets	5	6	5
Other Non current Assets	99	98	86
<b>Current Assets</b>			
Inventories	163	163	165
Trade receivables	72	74	104
Cash and Bank Balances	3	4	15
Short-term loans and advances	58	62	63
Other Current Assets	11	7	8
<b>Total Current Assets</b>	<b>307</b>	<b>311</b>	<b>356</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	47	31	35
Other current liabilities	15	12	11
Short-term provisions	4	4	4
<b>Total Current Liabilities</b>	<b>65</b>	<b>47</b>	<b>50</b>
<b>Net Current Assets</b>	<b>242</b>	<b>264</b>	<b>305</b>
Assets Classified as held for sale	-	-	-
<b>Total Assets</b>	<b>554</b>	<b>576</b>	<b>598</b>
<b>Liabilities</b>			
Share Capital	19	19	38
Reserves and Surplus	256	272	280
<b>Total Shareholders Funds</b>	<b>275</b>	<b>290</b>	<b>317</b>
<b>Total Debt</b>	<b>275</b>	<b>281</b>	<b>271</b>
Long Term Provisions	1	1	2
Lease Liabilities	-	-	2
Other Long Term Liabilities	4	4	4
Net Deferred Tax Liability	-	-	3
<b>Total Liabilities</b>	<b>554</b>	<b>576</b>	<b>598</b>

Cash Flows	FY22	FY23	FY24
Cash flow from Operating Activities	10	30	41
Cash flow from Investing Activities	(26)	(8)	(3)
Cash flow from Financing Activities	16	(22)	(26)
Free Cash Flow	(17)	21	31

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets (%)	2.2	2.5	2.4
Return on Capital Employed (%)	7.8	8.7	8.9
Return on Equity (%)	5.0	5.3	4.9
<b>Margin Analysis</b>			
Gross Margin (%)	43.3	39.2	41.2
EBITDA Margin (%)	14.7	15.6	16.5
Net Profit Margin (%)	3.9	4.1	4.2
<b>Short-Term Liquidity</b>			
Current Ratio (x)	4.7	6.7	7.1
Quick Ratio (x)	2.2	3.2	3.8
Avg. Days Sales Outstanding	75	73	102
Avg. Days Inventory Outstanding	299	264	273
Avg. Days Payables	57	36	41
Fixed asset turnover (x)	1.9	1.9	1.9
Debt-service coverage (x)	0.1	0.2	0.2
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	1.0	1.0	0.9
Interest Coverage Ratio (x)	1.8	1.8	1.8
<b>Valuation Ratios*</b>			
EV/EBITDA (x)	21.7	19.5	17.9
P/E (x)	61.8	55.2	54.4
P/B (x)	3.1	2.9	2.7
EV/Sales (x)	3.2	3.0	2.9
P/Sales (x)	2.4	2.3	2.3

\*Valuation ratios are based on pre-issue capital at the upper price band

Source: RHP, SSL Research

## Peer Comparison – FY24

Particulars (Rs cr)	Indo Farm Equipment Ltd	Action Construction Equipment Ltd	Escorts Kubota Ltd
CMP	215.0	1,521.0	3,292.0
Sales	375.2	2,914.0	8,850.0
EBITDA	61.8	404.0	1,167.0
Net Profit	15.6	328.0	1,049.0
Mkt Cap.	1,033.1	18,099.9	36,870.4
Enterprise Value	1,103.5	17,993.9	35,695.4
EBITDA Margin (%)	16.5	13.9	13.2
Net Profit Margin (%)	4.2	11.3	11.9
PE (x)	66.2	55.2	35.1
EV/EBITDA (x)	17.9	44.5	30.6
EV/Sales (x)	2.9	6.2	4.0
RoE (%)	4.9	30.6	12.0
RoCE (%)	8.9	42.3	16.1

For Indo Farm Equipment Ltd., Market cap, P/E (x), EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

CMP of peer companies is closing price of 30<sup>th</sup> December 2024.

For Indo Farm Equipment Ltd, RoE (%), RoCE (%) are calculated on pre-issue basis.

Source: RHP, SSL Research

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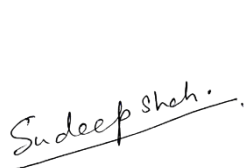
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