

May 13, 2022

Paradeep Phosphates IPO

Incorporated in 1981, Paradeep Phosphates Limited is a manufacturer of non-urea fertilizers in India. The company is part of the Zuari group and 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, Phosphogypsum 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 fertilizers are marketed under the brand names Jai Kisaan-Navratna and Navratna.

Positives: (a) Second largest manufacturer of Phosphatic fertilizers in India (b) Cost reductions through backward integration of facilities and effective sourcing (c) Established brand name backed by an extensive sales and distribution network (d) Secure and certified manufacturing facility and infrastructure (e) Unutilized land available for expansion

Investment concerns: (a) Business has high dependence on performance of agricultural sector. (b) Highly Regulated industry. (c) Business is subject to climate conditions and is cyclical in nature.

Outlook & Valuation: The issue comprises both of an offer for sale and fresh issue. While the Government of India will be selling its entire 20% holding in the company Zuari Maroc Phosphates Pvt Ltd. will also be selling part of its holding in the offer for sale. In terms of valuations, the stock will trade at post issue P/E multiples of 15.3x FY2021 EPS (at the upper end of the issue price band), which is in line with other players like Chambal fertilizer and Deepak fertilizer though they may not be strictly comparable. Given the fact that the company is valued in line with peers and likely to face headwinds in terms of cost pressures due to recent increase in raw material prices, we recommend a NEUTRAL rating on the issue.

Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021	9MFY22
Net Sales	4,358	4,193	5,165	5,960
% chg		(3.8)	23.2	
Net Profit	159	193	223	363
% chg		22.6	15.6	-
OPM (%)	8.5	9.2	8.9	8.6
EPS (₹)	2.8	3.4	3.9	6.3
P/E (x)	15.2	12.5	10.8	-
P/BV (x)	1.6	1.5	1.3	-
RoE (%)	10.7	12.1	12.2	-
RoCE (%)	8.1	9.9	14.9	-
EV/Sales (x)	1.3	1.1	0.7	-
EV/EBITDA (x)	12.5	10.2	6.4	-

Angel Research; Note: Valuation ratios based on post-issue shares and at ₹42per share.

Neutral

Issue Open: May 17, 2022

Issue Close: May 19, 2022

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹575cr

Offer for sale: ₹498cr

Fresh Issue: ₹1,004cr

Post Eq. Paid up Capital: ₹815cr

Issue size (amount): ₹1,502cr

Price Band: ₹39-42

Lot Size: 350 shares

Post-issue mkt.cap: ₹3,248*– 3,421cr**

Promoter holding Pre-Issue: 100%

Promoter holding Post-Issue: 56.10%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Post Issue Shareholding Pattern

Promoters	56.1%
Public	43.9%

Amarjeet S Maurya

Amarjeet.maurya@angelbroking.com

+022 4000 3600, Extn: 6810

Company background

Paradeep Phosphates Limited is a public company headquartered in Bhubaneswar, India. Zuari Agro Chemicals Limited (ZACL) holds 40.23% of equity shares of Paradeep Phosphates Limited through its joint venture Zuari Maroc Phosphates Private Limited (ZMPPL). The Company is primarily engaged in the manufacture of Di-Ammonium Phosphate (DAP), Complex Fertilizers of NPK grades, and Zypmite (Gypsum based product) having its manufacturing facility at the port town of Paradeep, District Jagatsinghpur, Odisha. The Company is also involved in trading of fertilizers, ammonia, neutralized phospho gypsum, micronutrient, and other materials.

The Company caters to the demands of farmers all over the country through its “Navratna” brand of fertilizers. The Company has one associate incorporated in Myanmar under the name of Zuari Yoma Agri Solutions Limited.

Issue details

PPL is raising ₹497.7cr through OFS and ₹1,004cr through Fresh Issue in the price band of ₹39-₹42 per share.

Exhibit 1: Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	57,54,50,000	100.00%	45,69,42,507	56.10%
Public	0	0.00%	35,75,55,112	43.90%
Total	57,54,50,000	100.00%	81,44,97,619	100.00%

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

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

- Repayment or pre-payment of certain borrowings availed by the Company.
- Part-financing the acquisition of the Goa Facility
- General corporate purpose

Key Managerial Personnel

Sabaleel Nandy is the President and Chief Operating Officer. He joined the Company on August 1, 2020. He holds a bachelor's degree in technology (civil engineering) from Indian Institute of Technology, Kharagpur and a post-graduate diploma in management from Indian Institute of Management, Lucknow. He serves on the boards of ZMPPL, Zuari Farm Hub Limited and ZYASL. Previously, he was associated with Tata Chemicals North America as an executive director. He was also the head of manufacturing of the Tata Chemicals Limited plant in Haldia.

Pranab Kumar Bhattacharyya is the Chief Manufacturing Officer – PPL Plant. He joined the Company on July 1, 2016. He holds bachelor's degrees in science and technology (chemical technology – ceramic engineering) from University of Calcutta. He also successfully completed the post-graduate executive management program from the S.P. Jain Institute of Management and Research, Mumbai. Previously, he was associated with Hindalco Industries Limited as an assistant general manager.

Alok Saxena is the General Manager and Head of Corporate Finance. He joined the Company on November 1, 2020. He holds a bachelor's degree in technology (computer engineering) from Govind Ballabh Pant University of Agriculture and Technology and successfully completed a post-graduate program in management from the Great Lakes Institute of Management, Chennai. Previously, he was associated with Tata Consultancy Services as a systems engineer. He has been with Adventz group for over a decade and has handled key strategic, business transformation, M&A and commercial portfolios within the group

Sachin Patil is the Company Secretary and Compliance Officer. He joined the Company on November 4, 2020. He holds a bachelor's degree in corporate secretarship (first class with distinction) from Karnatak University, Dharwad. He is an associate member of the Institute of Company Secretaries of India. He was earlier associated with Zuari Global Limited as Assistant Company Secretary and Compliance Officer.

Bijoy Kumar Biswal is the Chief Financial Officer. He joined the Company on November 6, 2021. He is a member of the Institute of Chartered Accountants of India in 1998. He was earlier associated with Forte Furniture Products India Private Limited as Chief Financial Officer.

Harshdeep Singh is the Chief Commercial Officer since March 29, 2022. He joined the Company on September 16, 2015. He holds a bachelor's degree in engineering (chemical engineering) from Sambalpur University and master's degree in business administration (international business) from Indian Institute of Foreign Trade. Previously, he was associated with Tata Chemicals Limited as an assistant vice president - commercial

Exhibit 2: Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021
Net Sales	4,358	4,193	5,165
% chg		(3.8)	23.2
Total Expenditure	3,916	3,733	4,622
Raw Material	3,124	2,944	3,871
Personnel	131	132	139
Other Expenses	661	657	612
EBITDA	442	460	542
% chg		4.1	17.9
(% of Net Sales)	10.1	11.0	10.5
Depreciation & Amortization	70	72	83
EBIT	371	387	459
% chg		4.3	18.5
(% of Net Sales)	8.5	9.2	8.9
Interest & other Charges	159	192	111
Other Income	39	35	19
(% of PBT)	15.6	15.2	5.2
Recurring PBT	251	230	367
% chg		(8.4)	59.2
Tax	92	36	143
(% of PBT)	36.8	15.8	39.1
PAT before P/L of Associate	159	194	223
% chg		22.0	15.2
Share in profit of Associate	(0)	(1)	(0)
PAT	159	193	223
Basic EPS (Rs)	2.8	3.4	3.9

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2019	FY2020	FY2021
SOURCES OF FUNDS			
Equity Share Capital	575	575	575
Reserves & Surplus	907	1,028	1,252
Shareholders' Funds	1,483	1,604	1,828
Total Loans	3,123	2,298	1,251
Other Liabilities	20	27	20
Total Liabilities	4,626	3,929	3,099
APPLICATION OF FUNDS			
Net Block	1,024	1,214	1,226
Capital Work-in-Progress	255	149	220
Investments	-	3	125
Current Assets	4,315	3,605	2,816
Inventories	1,422	1,079	899
Sundry Debtors	2,342	2,149	1,156
Cash	20	6	93
Loans & Advances	-	-	-
Other Assets	531	372	669
Current liabilities	975	1,060	1,232
Net Current Assets	3,340	2,545	1,585
Deferred Tax Liabilities	(26)	(22)	(93)
Other Assets	33	39	36
Total Assets	4,626	3,929	3,099

Source: Company, Angel Research

Exhibit 3: Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021
Profit before tax	251	230	367
Depreciation	70	72	83
Change in Working Capital	-1,305	778	993
Interest / Dividend (Net)	119	174	101
Direct taxes paid	-36	-29	-77
Others	-19	46	35
Cash Flow from Operations	-920	1,271	1,501
(Inc.)/ Dec. in Fixed Assets	-126	-139	-169
(Inc.)/ Dec. in Investments	5	-6	-121
Interest Received	18	1	1
Cash Flow from Investing	-103	-143	-289
Inc./(Dec.) in long term loans	-59	-69	-30
Inc./(Dec.) in short term loans	1,312	-794	-976
Dividend Paid (Incl. Tax)	-69	-69	0
Interest / Dividend (Net)	-165	-209	-118
Cash Flow from Financing	1,018	-1,141	-1,124
Inc./(Dec.) in Cash	-5	-14	88
Opening Cash balances	24	19	4
Closing Cash balances	19	5	92

Source: Company, Angel Research

Key Ratios

Y/E March	FY2019	FY2020	FY2021
Valuation Ratio (x)			
P/E (on FDEPS)	15.2	12.5	10.8
P/CEPS	10.6	9.1	7.9
P/BV	1.6	1.5	1.3
EV/Sales	1.3	1.1	0.7
EV/EBITDA	12.5	10.2	6.4
EV / Total Assets	1.2	1.2	1.1
Per Share Data (Rs)			
EPS (Basic)	2.76	3.36	3.88
EPS (fully diluted)	2.8	3.4	3.9
Cash EPS	4.0	4.6	5.3
Book Value	25.8	27.9	31.8
Returns (%)			
ROCE	8.1	9.9	14.9
Angel ROIC (Pre-tax)	8.1	9.9	16.0
ROE	10.7	12.1	12.2
Turnover ratios (x)			
Asset Turnover (Net Block)	4.3	3.5	4.2
Inventory / Sales (days)	119	94	64
Receivables (days)	196	187	82
Payables (days)	59	70	66
Working capital cycle (ex-cash) (days)	256	211	79

Source: Company, Angel Research

Research Team Tel: 022 - 40003600

E-mail: research@angelbroking.comWebsite: www.angelone.in

DISCLAIMER

Angel One Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and investment advisor with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel One Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel or its associates or research analyst or his relative may have actual/beneficial ownership of 1% or more in the securities of the subject company at the end of the month immediately preceding the date of publication of the research report. Neither Angel or its associates nor Research Analysts or his relative has any material conflict of interest at the time of publication of research report.

Angel or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business. Angel or its associates did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with the research report. Neither Angel nor its research analyst entity has been engaged in market making activity for the subject company.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel One Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel One Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel One Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel One Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information. Angel or its associates or Research Analyst or his relative might have financial interest in the subject company. Research analyst has not served as an officer, director or employee of the subject company.