

IPO Note: India Pesticides Ltd.

Industry: Agro-Chemical

Reco: Subscribe

Date: June 22, 2021

Issue Snapshot		Issue Break up		
Company Name	India Pesticides Ltd.	QIB ex Anchor	20%	5,405,405
Issue Opens	June 23, 2021 to June 25, 2021	Anchor Investor	30%	8,108,108
Price Band	Rs. 290 to Rs. 296	HNI	15%	4,054,054
Bid Lot	50 Equity Shares and in multiples thereof.	RII	35%	9,459,459
The Offer	Public issue of 27,027,027 Equity shares of Face value Re. 1 each, (Comprising of fresh issue of 3,378,378 Equity Shares* (Rs. 100 cr.) and Offer for Sale of 23,648,649 Equity Shares* (Rs. 700 cr.) by Selling Shareholder).	Total Public	100%	27,027,027
Issue Size	Rs. 800 Crore	Equity Share Pre Issue (Nos. Cr.)		11.2
IPO Process	100% Book Building	Fresh Share (Nos. Cr.)		0.3
Face Value	Re. 1.00	OFS Share (Nos. Cr.)		2.4
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		11.5
BRLM	Axis Capital Limited and JM Financial Limited	Market Cap (Rs. Cr.)		3,408.8
Registrar	Kfin Technologies Private Limited	Dilution		23.5%
		Fresh		2.9%
		OFS		20.5%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to Rs. 281.4 crore by Anand Swarup Agarwal and up to Rs. 418.6 crore by the Other Selling Shareholders)

Fresh Issue

- Funding working capital requirements of the Company (Rs. 80 cr.); and
- General corporate purposes.

Company Highlights

- India Pesticides Ltd. (IPL) is an R&D driven agro-chemical manufacturer of Technicals with a growing Formulations business. IPL is among the fastest growing agro-chemical companies in India in terms of volume of Technicals manufactured.
- IPL has 2 distinct operating verticals, namely, Technicals and Formulations. The APIs the company manufacture have anti-scabies and anti-fungal applications.
- They 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.
- IPL is the sole Indian manufacturer of 5 Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. The company diversified into manufacturing herbicide and fungicide Technicals and active pharmaceutical ingredients (APIs). The company also manufacture herbicide, insecticide and fungicide Formulations.
- IPL has a strategic focus on R&D and the R&D capabilities include 2 well-equipped in-house laboratories registered with the DSIR. IPL's R&D efforts have led to development of processes to manufacture 3 generic off-patent Technicals since FY18 and is currently in the process of developing processes for certain Technicals, including 2 fungicides, 2 herbicides, 2 insecticides and 2 intermediates.
- Company's Technicals are primarily exported and the revenue generated from exports contributed to 56.71% of their revenue from operations in FY21. As of March 31, 2021, Technicals are exported to over 25 countries including Australia and other countries in North and South America, Europe, Asia and Africa. Formulations products are primarily sold domestically through extensive network of dealers and distributors.
- Company's core focus is on quality and sustainability and none of the key Technicals are classified as 'red triangle' or highly toxic products. Currently they have obtained registrations and license to manufacture from the CIBRC for 22 agro-chemical Technicals and 125 Formulations for sale in India and 27 agro-chemical Technicals and 35 Formulations for export while they have a license to manufacture from the Department of Agriculture, Uttar Pradesh for 49 agro-chemical Technicals and 158 Formulations. For their APIs, they have obtained a license for manufacturing 2 drugs for sale at Dewa Road from the Drug Licensing and Controlling Authority under the Drugs and Cosmetics Rules, 1945.

- Currently they manufacture 8 Technicals, 2 APIs and over 30 Formulations. Of the 8 Technicals manufactured by IPL, 6 Technicals are categorized under the 'Blue Category' while 2 are categorized under the 'Green Category', indicating 'moderately toxic' and 'slightly toxic', respectively, as determined by Central Insecticide Board & Registration Committee.
- IPL currently has 2 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, their aggregate installed capacity of their manufacturing facilities for agro-chemical Technicals was 19,500 MT and Formulations was 6,500 MT. Their manufacturing facilities are equipped with modern plant and machinery capable of producing quality Technicals and Formulations. They have also commenced construction of 2 manufacturing units at their Sandila facility, which are proposed to be used for herbicide Technicals.
- Company's customer base currently comprises a number of multinational, regional and local companies that includes crop protection product manufacturing companies such as ASCENZA AGRO, S.A., Conquest Crop Protection Pty Ltd, Sharda Cropchem Ltd, Syngenta Asia Pacific Pte. Ltd., Stotras Pty Ltd and UPL Ltd.

View

- India Pesticides 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. The company manufactures various formulations of insecticides, fungicide and herbicides. As of March 2021, it manufactured over 30 Formulations that include Takatvar, IPL Ziram-27, IPL Dollar, IPL Soldier and IPL Guru.
- R&D is critical in maintaining company's competitive position in various business lines, and to address changing customer trends, industry developments and business models. R&D laboratories focus on costs and operating efficiencies, product design and development, production processes, technology development and environmental management. The main R&D activities undertaken by the company are technical development and enhancement of new and existing production techniques, formulation development and registration.
- As a result of their extensive R&D efforts, the company has, over the years developed a niche portfolio of agro-chemical products. The company has diversified the product portfolio over the years and have grown into a multi-product manufacturer of Formulations, herbicide and fungicide Technicals as well as APIs. The diversification across products and sectors has allowed the company to de-risk their business operations.
- Company has long term contract with the clients. Any increase in raw material cost company use to discuss with the clients in every quarter. All the MNCs customers purchase multiple products from the company thus shows their confidence on IPL. Lot of agro chemical products are got off patent and company is consulting with key players to evaluate the opportunities in these off patent products.
- IPL's financial performance has been quite impressive on all counts. Revenue and EBITDA recorded a CAGR growth of 38.0% and 67.5%, respectively through FY18- FY21, its net profit recorded a stellar 75.0% CAGR over the same period. Especially, its EBITDA margin has improved remarkably from 19.2% in FY19 to 28.2% in FY21. Improvement in EBITDA margin is due to improvement in yield and it is permanent feature and company believes this EBITDA margin will sustain in future.
- Balance-sheet has been comfortable with least leveraging and it is net cash positive company as the cash & cash equivalent is more than the debt. Additionally, consistent improvement in asset turnover over the years aided the company to record healthy profitability and strong return ratio. Asset turnover ratio is 3-5x and going forward might this high asset turnover will not enjoy but the ratio will remain above industry level. Receivable days come down from 190 days in FY19, 140 days in FY20 and 128 days in FY21. Company has made provisions for doubtful debtors. Company is focusing on reducing the Net working capital cycle days.
- In terms of the valuations, on the higher price band, IPL demands a P/E multiple of 25.3x based on FY21 post issue fully diluted EPS and EV/EBITDA of 18.8x post issue fully diluted FY21 EBITDA. Almost all listed peers are trading in the range of 22x – 60x and industry average is at 47x. Despite of reporting better return ratios compared to peers, IPL is valued at a significant discount to peers. Thus, issue appears reasonably priced.
- Given the healthy growth prospects and considering the strong emerging opportunity for domestic agrochemical companies in global as well as domestic market, increase in installed capacity on account of expansion of existing units, predominant presence in export markets, diversifying to new geography, launch of new products strong financials and healthy balance sheet augur well for the company's performance going forward. Hence, it is recommended to "SUBSCRIBE" the issue.

Revenue from Operations

Particulars	FY19		FY20		FY21	
	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total	Revenue (Rs. in Cr)	% to Total
Business Segment-wise						
Sale of Products	340.26	99.87%	477.96	99.65%	642.63	99.03%
– Home Market (Net)	169.46	49.74%	180.03	37.54%	274.6	42.31%
– Exports	170.8	50.13%	297.92	62.12%	368.03	56.71%
Other Operating Revenues	0.43	0.13%	1.67	0.35%	6.32	0.97%
– Export Incentives	0.43 -		1.67 -		6.32 -	
Total	340.69	100.00%	479.63	100.00%	648.95	100.00%
Sale of Product-wise						
Technicals	256.66	75.43%	383.28	80.19%	506.84	78.87%
Formulations	83.6	24.57%	94.68	19.81%	135.8	21.13%
Total	340.26	100.00%	477.96	100.00%	642.63	100.00%

Export Revenue

	FY19	FY20	FY21
Business in Australia	10.19%	30.48%	35.41%
Business in Europe	22.88%	21.24%	14.79%
Business in Asia (including India)	60.33%	43.54%	46.33%
Total Revenue from operations from exports	50.13%	62.12%	56.71%

Manufacturing Facility

Facility	Technicals			Formulations
	Herbicides	Fungicides	APIs	
Dewa Road, Lucknow	-	✓	✓	✓
Sandila, Hardoi	✓	✓	-	✓

Capacity and Capacity Utilization

Unit	FY19			FY20			FY21		
	Installed Capacity	Actual Production	% Utilization	Installed Capacity	Actual Production	% Utilization	Installed Capacity	Actual Production	% Utilization
Agro Chemical Technicals									
Dewa Road	2,100	1,910	91%	2,100	1,806	86%	2,100	2,000	95%
Sandila	7,900	6,064	77%	12,400	9,222	74%	17,400	13,003	75%
Total	10,000	7,974	80%	14,500	11,028	76%	19,500	15,003	77%
Formulations									
Dewa Road	3,000	1,918	64%	3,000	2,128	71%	3,000	2,677	89%
Sandila	3,000	1,615	54%	3,500	1,656	47%	3,500	2,047	58%
Total	6,000	3,533	59%	6,500	3,784	58%	6,500	4,724	73%

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21
Share Capital	3.2	3.2	11.2
Net Worth	187.0	256.8	389.5
Long Term Borrowings	11.3	10.4	7.4
Other Long Term Liabilities	8.0	8.0	8.9
Short-term borrowings	43.8	13.5	22.5
Other Current Liabilities	67.2	76.9	88.7
Fixed Assets	75.0	100.6	136.4
Non Current Assets	8.8	10.0	13.9
Current Assets	233.4	255.1	366.8
Total Assets	317.2	365.7	517.1
Revenue from Operations	340.7	479.6	649.0
Revenue Growth (%)		40.8	35.3
EBITDA	65.3	93.6	183.1
EBITDA Margin (%)	19.2	19.5	28.2
Net Profit	43.9	70.8	134.5
Net Profit Margin (%)	12.9	14.8	20.7
Earnings Per Share (Rs.)	3.9	6.4	12.1
Return on Networth (%)	23.5	27.6	34.5
Net Asset Value per Share (Rs.)	16.8	23.1	34.9

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21
Cash flow from Operations Activities	(3.4)	75.2	83.3
Cash flow from Investing Activities	(6.6)	(31.1)	(84.0)
Cash flow from Financing Activities	9.3	(39.0)	(4.1)
Net increase/(decrease) in cash and cash equivalents	(0.7)	5.1	(4.8)
Cash and cash equivalents at the beginning of the year	2.4	1.6	6.7
Cash and cash equivalents at the end of the year	1.6	6.7	1.9

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
India Pesticides Ltd.	649.0	28.2	0.1	36.2	27.5	25.3	7.0	18.8	5.3	3408.8
UPL Ltd.	35756.0	16.8	1.9	9.6	14.0	20.5	2.8	9.7	1.5	58956.5
PI Industries Ltd.	3366.5	22.8	0.2	23.1	18.6	57.7	8.0	37.8	9.3	42626.0
Atul Ltd.	4093.1	23.9	0.0	28.2	22.7	39.9	6.8	25.7	7.0	26149.6
Sumitomo Chemical India Ltd.	2424.7	14.2	0.0	23.9	20.0	55.0	12.3	37.4	7.2	18992.5
Rallis India Ltd.	2429.4	15.0	0.0	20.0	15.2	29.0	4.2	18.1	2.7	6628.5
Bharat Rasayan Ltd.	1215.1	20.3	0.2	33.7	32.4	35.1	8.1	22.6	4.6	5537.0
Dhanuka Agritech Ltd.	1120.1	17.7	0.0	26.4	20.9	21.1	5.6	14.6	3.2	4451.3

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