

K.P.R AGROCHEM LTD

IPO

PRICE BAND : ₹ 59–₹ 61

OUR RECOMMENDATION

“AVOID”

THE OFFER

Issue Open : 28 June 2019 to 02 July 2019

»» **Issue Type:** Book Built Issue IPO

»» **Total Issue Size:** ₹ 283.20 cr

⊖ **Offer for Sale:** 12,000,000 Equity Shares @ 10 aggregating up to ₹ 73.20 cr

⊖ **Fresh Issue:** 34,426,229 Equity Shares @ 10 aggregating up to ₹ 210.00 cr

»» **Face Value:** ₹ 10 Per Equity Share

»» **Issue Price:** ₹ 59 - ₹ 61 Per Equity Share

»» **Market Lot:** 200 Shares

»» **Minimum Order Quantity:** 200 Shares

»» **Listing At:** NSE & BSE

CAPITAL STRUCTURE

The share capital of Company, is set forth below:-

(Amount in ₹ except share data)

Authorized Share Capital :-

125,000,000 Equity Shares @10 Aggregate value 125 cr

Issued, subscribed and paid up capital before the Offer :-

85,464,000 Equity Shares @10 Aggregate value 85.46cr

Fresh Issue:-

34,426,229 Equity Shares @ 10 aggregating up to ₹ 210.00 cr

OBJECT OF THE OFFER

The objects of the Offer are:

- To meet additional working capital requirement of the Company (₹ 120 cr)
- Repayment/prepayment, in full or part, of certain borrowings availed by our Company (₹ 30 cr)
- General corporate purposes

COMPANY OVERVIEW

An agri-input, Andhra Pradesh based Company focussing on manufacturing, distribution and retailing of a wide range of crop yield enhancing and protection products. Also, ventured into manufacturing of sulphuric acid. It produces sulphuric acid as well as other sulphuric acid based chemicals like LABSA and oleum that have wider applications across industries like agrochemicals, veterinary feed supplements, pharmaceuticals, synthetic detergents etc. Thus, range of product encompasses products across the agri-value chain viz., from seeds to crop nutrients products to crop protection products and also veterinary feed supplements. The company has 9 depots at different locations for easy connectivity with nearly 8000 dealers across India. KPR sells products through a mix of Company operated retail outlets known as Kisan Seva Kendras and dealer network. As on March 31, 2019, there are 126 Kisan Seva Kendras. Also, KPR is a part of the K.P.R. group which has interests in agri-inputs, chemicals, rice mills and poultries.

Operates three manufacturing facilities viz one each at **Balabhadrapuram and Biccavolu** in East Godavari district of Andhra Pradesh and one in **Koppal district, Karnataka** and seed processing unit is located in **Warangal district, Telangana**. Moreover, has set-up a waste heat recovery plant at manufacturing facility at Biccavolu, East Godavari as well as Koppal, Karnataka to generate power in order to optimally use the steam produced during the manufacturing of sulphuric acid.

Majority of sales is from branded products like:

FAST, MOTOX - 10G, SAMRAT ATRAZINE and MEGA IMIDA being brands for crop protection.

AJAY (14-35-14) and AJAY (20-20-0) being brands for NPK mixture crop nutrient products.

ANNADATA SINGLE SUPER PHOSPHATE being brand for single super phosphate

ABHAYA CAL MIX being brand for di-calcium phosphate and APURVA SEEDS being brand for seeds.

Wide Product Portfolio

- **Crop Nutrient Products** (*installed capacity of 555,000 MTPA*) - single super phosphate, 11 grades of NPK mixture fertilizers, micro nutrients and bio products
- **Crop Protection Products** (*installed capacity of 21,560 MTPA*)- registrations of 156 formulations from CIB;
- **Seeds** (*installed capacity of 15,000 MTPA*)- 83 variety of seeds spanning various field and vegetable crops for which we have received centralised seed license certification for marketing and/or research and trial marketing;
- **Veterinary Feed Supplements** (*installed capacity of 34,560 MTPA*) – di-calcium phosphate for animal feed and also for use in pharmaceutical industry; and
- **Sulphuric Acid** (*installed capacity of 175,800 MTPA*)- production of sulphuric acid and sulphuric acid based chemicals like LABSA and oleum for variety of industrial applications including agrochemicals, pharmaceuticals, etc.

STRATEGIES AHEAD

- Geographical expansion
- Enhance product offering
- Increase our market penetration

GROWTH DRIVERS

- Increasing population and limited farmland availability
- Low productivity, growing demand for food grains and low crop yield provide high potential for increase in the fertiliser consumption going forward.
- Rising MSPs of various crops
- Improving fertiliser use efficiency

STRENGTHS

- Strong and growing distribution network
- Material sourcing capabilities.
- Certified manufacturing facilities
- Experienced Promoters and management team
- Wide agri-input product portfolio with presence across the agri-value chain enabling diversification of revenue risk



FINANCIAL HIGHLIGHTS

KPR revenues remained flat over past 5 years. Revenue decreased from Rs 615.9 Crores during FY14 to Rs 600.8 Crores for the FY18 and for the 9 months ended (as on dec.18) revenues stood at Rs 483.2 Crores.

Net profit increased from Rs 28.6 Crores to Rs 29.6 Crores during the FY14-FY18 and are at Rs 27.5 cr for 9 months ended Dec-2018.

EPS for FY2018 is Rs 3.47 and for 9 months ended 31st Dec, 2018, stood at Rs 3.23.

Company had a total outstanding borrowing (on consolidated basis) of Rs 473.77 crores during 9 months ended Dec.18, which is expected to reduce in coming years.

Segment Revenue

₹ in Cr

Segments	Net Sales (FY18)	% of revenue from operations
Fertilisers	355.16	59.21
Chemicals	61.84	10.31
Pesticides	155.02	25.84
Seeds	27.80	4.63
Total	599.82	100.00

Capacity Utilisation

Capacity and Capacity Utilisation for last 3 years

Segment	Fiscal 2016		Fiscal 2017		Fiscal 2018	
	Installed	Capacity	Installed	Capacity	Installed	Capacity
	Capacity	Utilisation	Capacity	Utilisation	Capacity	Utilisation
	(MTPA)	(%)	(MTPA)	(%)	(MTPA)	(%)
Crop Protection	21,560	55.93	21,560	56.80	21,560	56.54
Crop Nutrients	5,55,000	38.03	5,55,000	30.28	5,55,000	24.11
Veterinary Feed Supplements	34,560	98.25	34,560	98.91	34,560	98.90
Chemicals	1,75,800	42.68	1,75,800	53.16	1,75,800	33.84

Source: RHP

RISK FACTORS

- Competitive business environment
- Highly dependent on monsoon
- Rely on third party and farmers for seed production
- Agrochemical business is subject to high regulations which may be subject to increased compliance costs.
- Seasonal and cyclical nature of agricultural industry.
- Political instability, resulting from a change in government or in economic and fiscal policies.
- Shutdown or significant disruption at any of manufacturing facilities.
- Operations and revenues are primarily concentrated in the southern regions of India, the inability to retain and grow business in these regions may effect adversely.

INDUSTRY OVERVIEW

Global cereal production is estimated to grow by around 1% p.a. with Per capita cereal food consumption expected to rise to 164 kg/person by 2023. Moreover, production of foodgrains is to grow to ~305 million tonnes by 2023. In terms of Rice, expected to be the major contributor to the growth with production levels of 124 million tonnes over the same period and will be followed by wheat (112 million tonnes), coarse grain (46 million tonnes) and pulses (23 million tonnes).

Production growth over the period will be encouraged by rise in MSPs for rice and wheat which have witnessed a robust increase in the past and is expected to be increased in similar lines MSPs for the major food grains which has been increased at a CAGR of 6- 11% over the last eight years. This rise will help to compensate for the rising cost of production as well as to incentivize farmers to increase the production as well as the productivity.

Government Focus on the Sector

GoI's intent has been to double the farmer's income by the year 2022. In the current Union budget for FY2020, the government announced several initiatives to augment the farmer incomes and also alleviate the agri-stress currently prevalent. It has also been working towards structural reforms like issuance and acceptance of soil health cards, improving irrigation facilities etc.

- GoI announced a income support scheme under **PM-KISAN** for small and marginal farmers to receive Rs. 6,000 p.a. expected to aid sales of farm inputs like agrochemicals, seeds, fertilisers etc.
- Enhanced the allocation for the Pradhan Mantri Fasal Bima Yojna (PMFBY) by Rs. 1000 crore taking the total to Rs. 14,000 crore

- Promoting improvement in the irrigation facilities through the Pradhan Mantri Krishi Sinchayi Yojna (PM-KSY) to reduce the reliance on monsoon rains and reduce agro-climatic risks and has allocated Rs. 9,516 crore for the scheme. So far, the scheme has covered 37.49 lakh hectares of land under micro-irrigation projects.
- Announced a 2% p.a. interest subvention scheme for the farmers facing natural calamities. Additionally, another 3% p.a. interest subvention has been offered to such farmers who make timely repayment of their loans will aid reduction in the interest burden on the farmers and also aid income of farmers with lower outflow.

VALUATION

KPR operations and revenues are primarily concentrated in the southern regions of India, mainly in Andhra Pradesh, Telangana and Karnataka. Further, all of the manufacturing facilities are located in southern India and hence geographically concentrated. To increase footprints, it intends to market products in other parts of India, namely, Uttar Pradesh, Himachal Pradesh, Chhattisgarh and West Bengal. Also, is looking forward to penetrate into new locations and strengthen its reach in the present areas of operations. However, all the stated expansions would be time taking.

However, company's Revenue & PAT has remained flat over the last 5 years while margins were marginally well. Not only the past performance, the future growth outlook is also not much clear and can be said to be blur. Already around Rs 470cr of borrowings are standing on the books. From IPO proceeds also this figure is not expected to come down substantially as only Rs 30 cr been set aside & major portion of Rs120cr is for the working capital requirement.

On the upper price band of ₹ 61, the stock would trade at **P/E of 17.60x for FY18 earnings**, which is reasonably priced. Therefore, major shoot up in the stock is not expected. We recommend to **AVOID** the IPO.

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