

## K.P.R. AGROCHEM LIMITED

K.P.R. Agrochem Limited (K.P.R) is an agri-input Company focused on manufacturing, distribution and retailing of a wide range of crop yield enhancing and protection products. It has 3 manufacturing facilities. Fertilizers segment contributes around 60% of revenue, pesticides around 25% of revenue followed by chemicals & seeds contributing 10% & 5% of revenue respectively.

**Positives:** (1) Company has ideal capacity in all the plants, so no major capex is required. 2) Experience Promoters & management team. 3) Strong & growing distribution network. 4) Wide variety of product portfolio. 4) Company sales is almost concentrated in south, there is scope for geographical expansion. 5) Due to amount raised through IPO, company working capital will increase which will help increase production leading to higher sales.

**Investment concerns:** (1) From last few years sales as well as profits are stagnant. 2) Company, Promoters & Directors are involved in legal proceedings. Legal proceedings relate to dishonor of cheques, Fertilizers Control Order, 1985. 3) Promoters & Directors of the company have equity interest in group entities & there is no restriction on group entities to do business similar to K.P.R. 4) Group entities have defaulted on payment of loans. 5) Company business is highly dependent on rainfall in southern part of India.

**Outlook & Valuation:** At the upper end of the price band, K.P.R. demands PE multiple of 17.6x of FY18 EPS. Coromandel International too trades at same PE multiple compare with K.P.R. which is growing at faster rate compare to K.P.R. Deepak Fertilizers & Petrochemicals and Chambal Fertilizer trades at PE multiple 6.5x & 14.4x of FY18EPS respectively. Considering all these, **we have a NEUTRAL view.**

### Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E
<b>Net Sales</b>	580.1	583.7	599.8	603.2
% chg	-	0.6	2.8	0.6
<b>Net Profit</b>	24.3	22.7	29.7	32.1
% chg	-	-6.4	30.4	8.1
EBITDA (%)	103.4	95.5	104.3	106.5
<b>EPS (Rs)</b>	2.8	2.7	3.5	3.8
P/E (x)	21.5	22.9	17.6	16.3
P/BV (x)	3.0	2.7	2.3	2.0
RoE (%)	14.1	11.7	13.2	12.5
RoCE (%)	15.9	14.0	14.1	15.3
EV/EBITDA	8.4	8.9	8.4	7.6
EV/Sales	1.5	1.5	1.5	1.3

Company Source: RHP, Angel Research; Note: Valuation ratios based at upper end of the price band.

## NEUTRAL

Issue Open: June 28, 2019

Issue Close: July 02, 2019

Face Value: ₹10

Present Eq. Paid up Capital: ₹85.46cr

Offer for Sale: \*\*1.2 cr Shares

Fresh issue: ₹210 cr

Post Eq. Paid up Capital: ₹119.8cr

Issue size (amt): \*₹281.8 - \*\*₹283.2 cr

Price Band: ₹59-61

Lot Size: 200 shares and in multiple thereafter

Post-issue implied mkt. cap: \*₹785cr - \*\*₹804.5cr

Promoters holding Pre-Issue: 72%

Promoters holding Post-Issue: 48%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	25% of issue
Non-Institutional	35% of issue
Retail	40% of issue

### Post Issue Shareholding Pattern

Promoters	48%
Others	52%

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## Company background

K.P.R. Agrochem Limited (K.P.R) was incorporated on January 02, 2007. Promoters of the Company are Papa Reddy, Venkata Mukunda Reddy, Rajasekhar Reddy, Satyanarayana Reddy (S/O. Ramachandra Reddy), Satyanarayana Reddy (S/O. Veera Raghava Reddy) & Cresco Technology LLP. K.P.R. is an agri-input Company focused on manufacturing, distribution and retailing of a wide range of crop yield enhancing and protection products. Company product portfolio includes crop protection, crop nutrients, seeds, veterinary feed supplements. Further, in order to secure supply of sulphuric acid, one of the key ingredients, K.P.R. also ventured into manufacturing of sulphuric acid. Company produce 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

Company operates three manufacturing facilities viz one each at Balabhadrapuram and Biccavolu in Andhra Pradesh and one in Koppal district, Karnataka and their seed processing unit is located in Warangal district. The Company has depots at 11 locations, C&F agents in 4 locations, 8000 dealers, 126 Kisan seva Kendras. The company also has registration of 156 formulations.

## Issue Details

K.P.R is raising ₹210cr through fresh issue & selling 1.2cr equity shares through offer for sale in the price band of ₹59-61. Retail & eligible employees are also eligible for ₹3 discount.

### Exhibit 1: Exhibit 1: Pre & Post IPO Shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	61,547,480	72	49,547,480	48%
Public	23,916,520	28	70,342,750	52%
	85,464,000	100	119,890,230	100

Source: RHP, Angel Research. Note: Calculated on upper price band.

## Objects of the offer

Repayment of debt (₹30cr), working capital requirements (₹150cr) and balance for general corporate purposes.

## Key Management Personnel:

**Papa Reddy**, aged 82 years is the chairman & Whole Time Director of the Company. He has experience of over four decades in the agriculture business.

**Venkata Reddy** is the Managing Director of the Company. He has experience of over two decades in the business of agrochemical industry. He holds Bachelor's degree in Arts from Andhra University.

**Rajasekhar Reddy** is the Whole Time Director & Executive Director of the Company. He has experience of over a decade in business of chemical, agrochemical. He holds Bachelor's degree in Computer Science from University of Madras.

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	85.5	85.5	85.5	85.5
Reserves & Surplus	86.9	109.7	139.3	171.4
<b>Shareholders Funds</b>	<b>172.4</b>	<b>195.1</b>	<b>224.8</b>	<b>256.9</b>
<b>Total Loans</b>	<b>367.3</b>	<b>345.7</b>	<b>366.5</b>	<b>306.5</b>
Other liability & provision	50.8	43.6	51.7	59.5
<b>Total Liabilities</b>	<b>590.5</b>	<b>584.5</b>	<b>643.0</b>	<b>622.9</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	247.1	246.2	231.5	216.4
Capital Work-in-Progress	0.4	0.1	-	-
Investments	10.5	10.5	-	-
Current Assets	509.4	566.3	556.2	535.4
Inventories	263.4	323.8	292.8	274.9
Sundry Debtors	198.9	216.5	235.6	231.4
Cash	18.8	16.0	14.6	13.6
Loans & Advances	25.6	7.8	10.6	12.0
Other Assets	2.7	2.3	2.5	3.5
Current liabilities	222.5	288.9	197.7	181.9
<b>Net Current Assets</b>	<b>286.9</b>	<b>277.4</b>	<b>358.5</b>	<b>353.5</b>
Other Non Current Asset	45.5	50.2	53.1	53.0
<b>Total Assets</b>	<b>590.5</b>	<b>584.5</b>	<b>643.0</b>	<b>622.9</b>

Source: Company, Angel Research

**Exhibit 2: Consolidated Income Statement**

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E
<b>Total operating income</b>	580.1	583.7	599.8	603.2
% chg	-	0.6	2.8	0.6
<b>Total Expenditure</b>	476.7	488.2	495.5	496.7
Raw Material	388.6	402.0	415.7	418.1
Personnel	29.0	33.7	32.2	31.2
Others Expenses	59.0	52.5	47.6	47.4
<b>EBITDA</b>	103.4	95.5	104.3	106.5
% chg	-	-7.6	9.2	2.1
(% of Net Sales)	17.8	16.4	17.4	17.7
Depreciation & Amortisation	17.5	19.9	20.8	20.1
<b>EBIT</b>	85.8	75.6	83.5	86.4
% chg	-	-11.9	10.4	3.4
(% of Net Sales)	14.8	13.0	13.9	14.3
Interest & other Charges	50.9	55.0	46.7	45.9
Other Income	1.3	7.0	1.0	1.0
(% of Sales)	0.2	1.2	0.2	0.2
<b>Recurring PBT</b>	36.3	27.6	37.8	41.4
% chg	-	-23.9	37.1	9.5
Tax	12.0	4.9	8.2	9.4
<b>PAT (reported)</b>	24.3	22.7	29.7	32.1
% chg	-	-6.4	30.4	8.1
(% of Net Sales)	4.2	3.9	4.9	5.3
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	2.8	2.7	3.5	3.8
% chg	-	-6.3	30.5	8.1

Source: Company, Angel Research

**Consolidated Cash Flow Statement**

Y/E March (₹cr)	FY16	FY17	FY18	FY19E
Profit before tax	36.3	27.6	37.8	41.4
Depreciation	17.5	19.9	20.8	20.1
Change in Working Capital	24.2	(22.6)	(70.4)	4.2
Interest	49.7	54.3	45.8	45.9
Direct taxes paid	(10.2)	(2.6)	(7.5)	(9.4)
Others	0.3	0.4	3.9	-
<b>Cash Flow from Operations</b>	<b>117.8</b>	<b>76.9</b>	<b>30.4</b>	<b>102.3</b>
(Inc.)/ Dec. in Fixed Assets	(40.7)	(18.8)	(6.0)	(5.0)
(Inc.)/ Dec. in Investments	-	-	10.5	-
Interest Income	1.1	0.5	0.7	-
<b>Cash Flow from Investing</b>	<b>(39.6)</b>	<b>(18.3)</b>	<b>5.2</b>	<b>(5.0)</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	(22.1)	(2.7)	9.2	(52.4)
Interest Paid	(50.6)	(53.5)	(46.0)	(45.9)
Dividend Paid	(5.1)	(5.1)	-	-
<b>Cash Flow from Financing</b>	<b>(77.9)</b>	<b>(61.4)</b>	<b>(36.9)</b>	<b>(98.4)</b>
Inc./(Dec.) in Cash	0.3	(2.8)	(1.4)	(1.0)
<b>Opening Cash balances</b>	<b>18.5</b>	<b>18.8</b>	<b>16.0</b>	<b>14.6</b>
<b>Closing Cash balances</b>	<b>18.8</b>	<b>16.0</b>	<b>14.6</b>	<b>13.6</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY16	FY17	FY18	FY19E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	21.5	22.9	17.6	16.3
P/CEPS	11.8	12.5	9.6	10.0
P/BV	3.0	2.7	2.3	2.0
Dividend yield (%)	-	-	-	-
EV/Sales	1.5	1.5	1.5	1.3
EV/EBITDA	8.4	8.9	8.4	7.6
EV / Total Assets	1.1	1.0	1.0	1.0
<b>Per Share Data (₹)</b>				
EPS (Basic)	2.8	2.7	3.5	3.8
EPS (fully diluted)	2.8	2.7	3.5	3.8
Cash EPS	5.2	4.9	6.4	6.1
DPS	-	-	-	-
Book Value	20.2	22.8	26.3	30.1
<b>Returns (%)</b>				
ROA	2.99	2.60	3.53	3.98
Angel ROIC (Pre tax)	16.8	14.7	14.5	15.7
ROE	14.1	11.7	13.2	12.5
<b>Turnover ratios (x)</b>				
Asset Turnover	42.5	42.1	38.5	35.8
Inventory / Sales (days)	247	294	253	240
Receivables (days)	125	135	144	140
Payables (days)	192	249	162	154
Working capital cycle (ex-cash) (days)	181	180	235	226

Source: Company, Angel Research

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