

# Paradeep Phosphate: New capacity creates window for growth

LEKHA BADLANI-JHAMNANI | DECEMBER 13, 2022 / 06:10 PM IST



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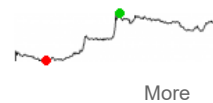
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## Highlights

- *High exposure to complex fertiliser segment*
- *Strong promoter backing for key inputs*
- *Backward integration improves cost efficiency*
- *Goa expansion to improve FY24 financials*
- *Growth potential at inexpensive valuation*

**Paradeep Phosphate** (PPL; CMP: Rs 57; Market cap: Rs 4,622 crore), India's second-largest private sector phosphatic fertiliser company, is ramping up capacity with its recent Goa acquisition, which is expected to have a meaningful contribution in FY24. Post the targeted utilisation of full capacity of 3 million tonnes by FY24 (including Goa plant), PPL will emerge as a significant private player in the fast growing complex fertiliser space.

We like PPL's focus on the complex fertiliser (non-urea) segment as the government is promoting non-urea complex fertilisers to avoid the excessive use of urea and achieve balanced nutrition for soil.

In addition, PPL owns large parcels of land aggregating about 2,282 acres at the Paradip facility, of which only 33 percent is used by the current fertiliser plant.

PPL indicated its intent to venture into crop protection space (can use surplus land at Paradip), which would lead to valuation as well as earnings re-rating, given that the crop protection industry is relatively less regulated than the fertiliser segment.

We initiate coverage on PPL and advise investors to accumulate it for long-term gains.

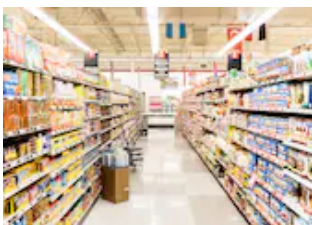
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## Focus on high margin, high performance complex segment

PPL has a diverse product portfolio of complex fertilisers such as DAP, three grades of NPK (NPK-10, NPK-12 and NP-20), MOP, Zypmite, and Phosphogypsum. It is also engaged in trading and sales of MOP, Ammonia, City compost, and P2O5-HSS.

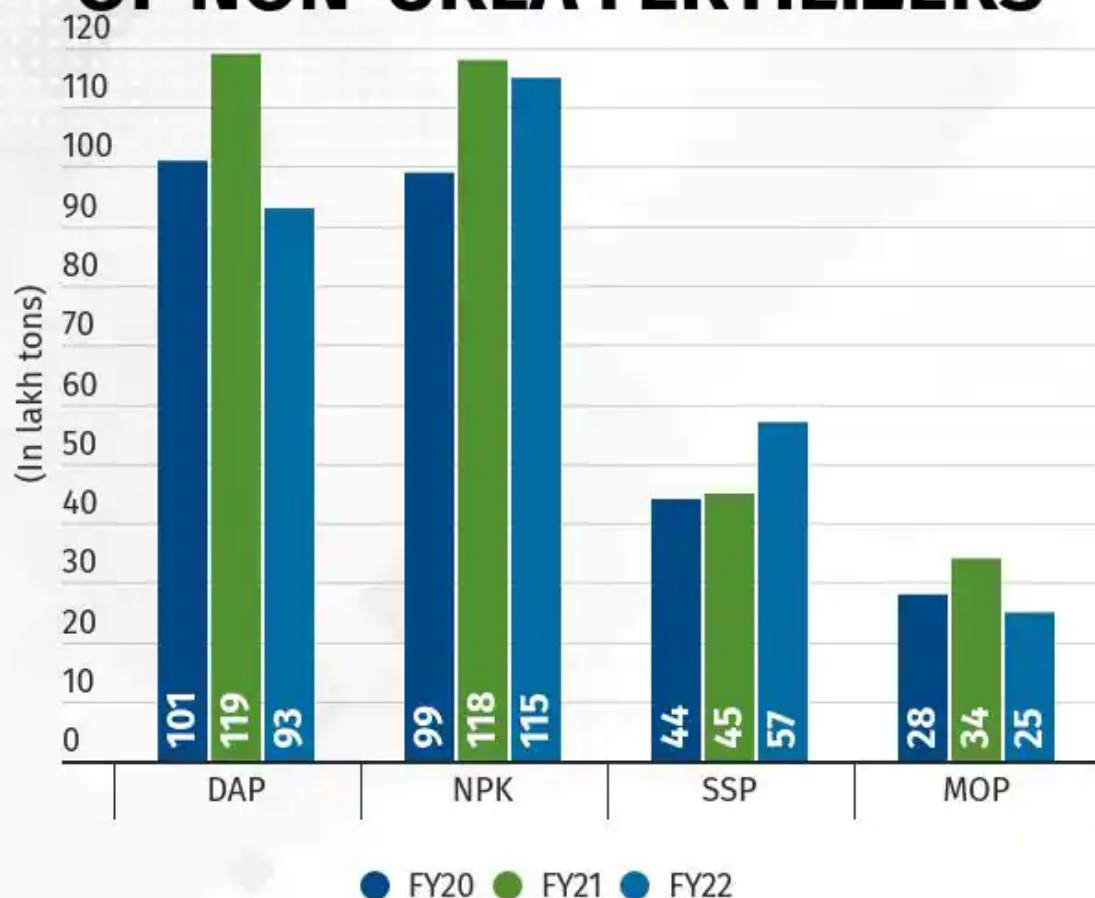
The use of complex fertilisers globally is gaining importance lately. They provide multi-nutrients, induce uniform nutrients distribution, can be

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customised, and are cost effective compared to individual fertilisers. Complex fertilisers are especially useful for cereals, oilseeds, fruits, and vegetables. The Indian government is also encouraging the use of complex fertilisers, given their advantages.

Non-urea fertilisers are expected to outpace the overall industry and register mid-single digit growth (urea segment volumes are expected to remain stagnant). In the non-urea space, the phosphatic fertiliser sub-segment (DAP, NPK, SSP) is expected to grow at a CAGR of 4.2-4.4 percent from FY22 to FY2026 and complex (NPK) and DAP fertilisers are expected to lead the non-urea segment growth.

# INDIA'S CONSUMPTION OF NON-UREA FERTILIZERS



Source: CIL Annual report, FAI



## Inorganic growth through Goa expansion; PPL to emerge as a much bigger player

With the objective of expanding its product portfolio, PPL recently acquired ZACL's Goa facility on a slump sale for a total consideration of \$280 million.

Including the 1.2 million MTPA capacity from Goa facility, PPL's installed capacity is now 3 million tonnes (an increase of about 70 percent).

Post Goa plant's acquisition, PPL would increase the sales of specialised fertilisers such as NPK-19 (currently only the Goa plant manufactures the fertiliser in India). PPL will also widen its geographical reach by getting access to markets in Western and Southern India, which were being catered to by the Goa plant earlier. Overall, PPL aims to gain further market share in Maharashtra, Madhya Pradesh, Chattisgarh, and Telengana, post reaching full capacity at Goa.

The Goa facility would thus make PPL a much larger complex fertiliser player, enable PPL to gain benefits of scale (in both production as well as raw material sourcing) as well as improve its overall financials. However, since Goa plant is not as backward integrated as the Paradeep facility, its EBITDA/tonne is expected to be tad lower than that of PPL even after the ramp-up of capacity utilisation.

## INSTALLED CAPACITY

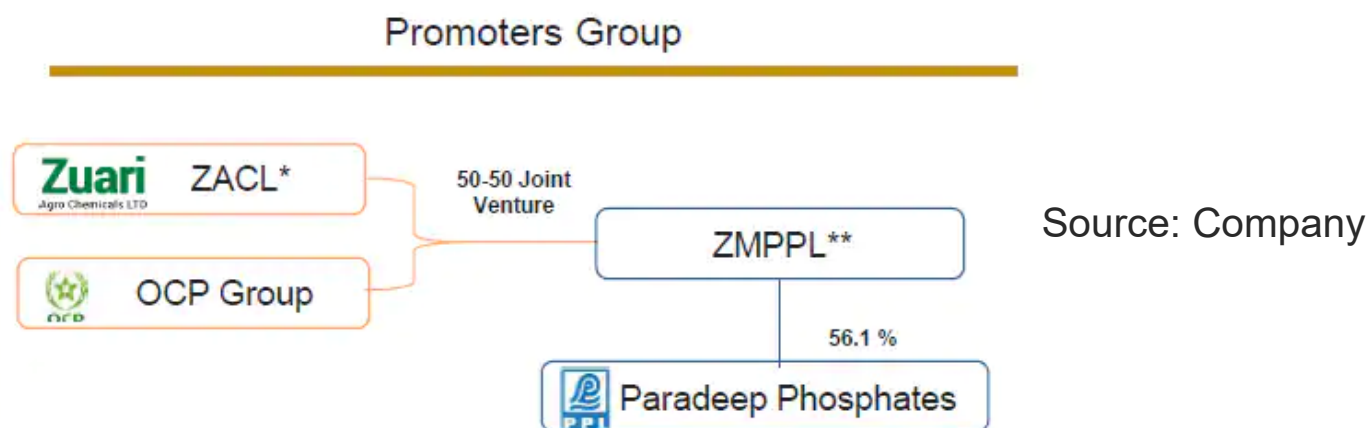
(in million MTPA)	FY22 capacity	Addition	FY23 capacity
<b>Paradeep</b>			
DAP and NPK	1.4	0.4	1.8
<b>Goa</b>			
DAP and NPK		0.8	0.8
Urea		0.4	0.4
<b>Total</b>	<b>1.4</b>	<b>1.6</b>	<b>3.0</b>

Source: PPL, Moneycontrol Research





## Strong promoter backing and backward integration for key inputs



ZACL (a leading fertiliser player) and the OCP group form a part of PPL's promoter group. PPL has a long-term agreement with the OCP Group, which has about 70 percent of the global rock phosphate reserves, a key raw material used in the production of phosphate fertilisers. Given the arrangement with the OCP group, PPL has ensured the supply of key raw materials. This is a big positive.

PPL is also backward integrated for its other key inputs. It manufactures phosphoric acid in-house from rock phosphate, thereby resulting in higher EBITDA/tonne at its Paradeep facility. It is also retrofitting a new phosphoric acid plant and is planning to install a new evaporator, which will increase its annual phosphoric acid production capacity from 0.3 million MTPA to 0.5 million MTPA by end of FY23.

Further, it has a sulphuric acid production plant at its Paradeep facility and an ammonia production plant at its Goa facility. These are also used as feedstock for its finished fertilisers.

These arrangements provide us comfort in PPL's cost competitiveness as FY24 should see full benefits of backward integration, which will reach over 90 percent from the current 75 percent at the phosphoric acid level. And the tie-up with OCP

secures PPL's requirements of rock phosphate and also benefits from cost synergies.

## BACKWARD INTEGRATION

(in million MTPA)	FY22 capacity	Addition	FY23 capacity
Paradeep			
Sulphuric acid	1.4	0.0	1.4
Phosphoric acid	0.3	0.2	0.5
Goa			
Ammonia	–	0.2	0.2
Total	–	–	2.1

Source: PPL, Moneycontrol Research



### Update on subsidy rates for fertilisers

The cabinet recently approved a subsidy of Rs 51,875 crore for the Rabi 2023 season.

While the rates for nitrogen fertilisers have increased, complex fertilisers (P, K and S) have witnessed a decrease in the range of 8-12 percent.

The reduction in subsidy rates is primarily due to the reduction in raw material prices.

## NUTRIENT RATES\*

	N	P	K	S
FY21-22	18.79	45.32	10.12	2.37
FY22-23 (Kharif)	91.96	72.74	25.31	6.94
FY22-23 (Rabi)	98.02	66.93	23.65	6.12
% change from Kharif to Rabi FY23	7%	-8%	-7%	-12%

\*Rs/kg - from 1st Oct 2022 to 31st Mar 2023;  
Source: GOI, Department of Fertilizers



## Valuations & peer comparison

## PEER COMPARISON

Stock	FY21			FY22		
	Revenue	EBITDA	EBITDA Margin	Revenue	EBITDA	EBITDA Margin
PPL	5,165	542	10%	7,859	671	9%
CIL	14,182	1,984	14%	19,111	2,150	11%
GSFC* (Fertilizers only)	5,863	369	6%	6,150	694	11%

All values in INR crore, unless stated otherwise, GSFC\* EBIT (margin)

Footnote: CIL= Coromandel International, PPL= Paradeep Phosphates, , GSFC= Gujarat State Fertilizers & Chemicals

Source: Company reports, ACE Equity, Moneycontrol Research



Amongst the peers, CIL (Coromandel International) is the closest peer as it manufactures purely complex fertiliser like PPL. CIL's higher margins are attributable to its large economies of scale and its high-margin crop protection



business (accounts for 10-15 percent of revenues), which easily adds to a ~100-200 bps to the EBITDA. CIL is trading at a steep premium compared to PPL on a P/E basis.

GSFC is not directly comparable to PPL as it derives 70 percent of revenues from fertilisers and the rest from the industrial segment, which is unrelated to agriculture. Also, about 40 percent of GSFC's fertilisers are urea products compared to the negligible exposure of both CIL and PPL to urea. Moreover, GSFC margins are pretty volatile (FY22 margins almost doubled and could be owing to one-off factors). PPL and GSFC trade at comparable P/E valuations.

## PEER COMPARISON

Stock	Mcap (Cr)	CMP	FY19-FY22		FY22		
		09-Dec-22	Revenue CAGR	EBITDA CAGR	ROE	ROCE	P/E
PPL	4,622	57	22%	15%	18%	11%	8.2x
CIL	28,266	961	13%	14%	24%	29%	15.4x
GSFC* (Fertilizers only)	5,333	134	-1%	34%	9%	13%	7.2x

Note: GSFC\* EBIT CAGR

Source: Company reports, ACE Equity, Moneycontrol Research



PPL has the track record of strong top line and EBITDA growth. Post the ramp-up in Goa and the enhanced backward integration, we expect strong growth momentum to continue.

At CMP, PPL is trading at P/E of ~9x our FY24 projected earnings, which is at a discount to its closest peer (CIL) at 14x, in the non-urea space.

The stock has corrected ~20 percent from its 52-week high and we think investors can use the current weakness as a long-term buying opportunity.

# VALUATIONS

Particulars	FY21	FY22	FY23E	FY24E
Revenues (Rs cr)	5,165	7,859	11,945	15,529
growth %	23%	52%	52%	30%
EBIDTA (Rs cr)	542	671	764	1,165
EBITDA margin (%)	10.5%	8.5%	6.4%	7.5%
Adj Net Profit (Rs cr)	223	398	335	537
EPS (Rs)	3.9	6.9	4.1	6.6
P/E (x)	14.7x	8.2x	13.9x	8.6x

Source: Company, Moneycontrol Research



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**LEKHA BADLANI-JHAMNANI** is a Research Analyst at Moneycontrol. She holds an MBA in finance and has over 7 years of experience in the equity market, having previously worked for a global investment bank.