

Upsurge Seeds of Agriculture Limited

A REVIEW REPORT ON UPSURGE SEEDS OF AGRICULTURE LIMITED IPO

IPO Details

Opening Date	July 29, 2022
Closing Date	Aug 02, 2022
Stock Exchange	NSE SME
Lot Size	1200 Shares
Issue Price	₹ 120 per share
Issue Size	19,00,800 Equity Shares
Application Amount	₹ 1,44,000

IPO Objective

- Funding Working Capital Requirements
- To meet Issue Expenses
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	50,00,000	96.92 %
Public	1,59,000	3.08 %

Company Background

- Company was incorporated in the year 2017 in Gujarat.
- Company is engaged in growing, developing, processing and marketing of variety of seeds for a range of field crops and vegetables.
- Company procures breeder seed, then processes it to foundation seeds and then finally processes it to commercial seeds, which is then sold in market for crop production.
- Company has been operating under the brand name "USA Seeds".
- As on 31st March 2022, the company had a total of 16 employees.

Promoter of the Company

1. Mr. Arvindkumar Jadavjibhai Kakadia
2. Mr. Viken Jantilal Kakadiya
3. Mrs. Sonalben Arvindbhai Kakadiya

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Company Overview

Upsurge Seeds of Agriculture Limited was incorporated on 30th October 2017 in Gujarat. The company is engaged in the business of growing, developing, processing and marketing of variety of seeds for a range of field crops and vegetables. Company procures breeder seeds which it processes into foundation seeds, which is then processed into commercial seeds and sold in market for crop production.

Analysis

The company has been into the business since 2017 and is currently operating with an Installed Capacity of 14,400 MT and utilized capacity of 12,616 MT which shows that the company has utilized 87.61% of its capacity. The company has not increased its installed capacity since 2019-20 and looking at the capacity utilization it seems that it would require to increase its utilized capacity in the coming times. The company has its processing unit at Rajkot spread across an area of around 45,000 sq. ft.

Company's business model works by entering into seed grower production agreement with seed growing farmers for leasing their land on lease rentals to develop and produce the foundation and commercial seeds. Under these agreements, the farmer is engaged to carry out agricultural operations over the leased agricultural land, however the ownership of the entire crop and the risk of crop failure is retained with the company. The farmers are compensated for their services of producing such seeds and for all production expenses such as land preparation, irrigation, sowing, fertilization, combat against pests and diseases, weeding, harvesting, thrashing etc. The grown commercial seeds are then processed in the company's processing facility in Rajkot

State-wise and Product-wise breakup of revenue is given in the tables below –

(In lakhs)

STATE NAME	FY 21-22	FY 20-21	FY 19-20
Gujarat	6,636.40	5,106.00	1,290.79
Rajasthan	602.06	925.44	369.53
Maharashtra	240.95	213.13	88.80
Madhya Pradesh	23.14	7.02	-
Karnataka	22.01	-	-
West Bengal	18.09	-	-
Grand Total	7,542.65	6,251.58	1,749.12

(In Lakh)

Product	FY: 20221-22	FY: 2020-21	FY: 2019-20
Groundnut Seeds	5,498.36	5,197.67	1,375.53
Gram Seeds	768.30	96.84	-
Seasame Seeds	427.36	9.88	1.60
Cumin Seeds	261.45	295.09	133.58
Wheat Seeds	216.95	86.16	-
Mung Seeds	115.29	12.40	8.96
Rajka Seeds	95.69	416.07	80.52
Other Misc Seeds	159.26	137.48	148.94
TOTAL	7,542.65	6,251.58	1,749.12

The main market from the above table can be identified as Gujarat with the highest selling product being Groundnut Seeds.

With a track record of around 5 years, the company has been able to generate continuously growing revenue over the years with increasing presence in newer regions of India and increasing revenue from other products as well.

Thus it can be said the company has been performing good with its existing business model and product segment. However, it has to increase its installed capacity in coming times as it is already operating at around 87% of its installed capacity.

Industry Charts

Exhibit 1: Gross Value Added by Agriculture and Allied Sector (US\$ Billion)

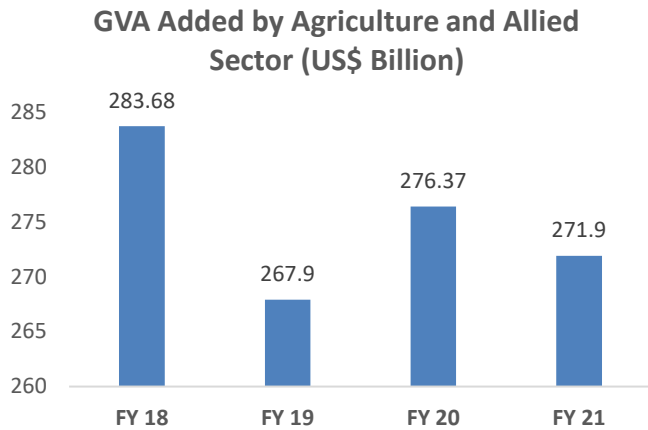


Exhibit 2: Agricultural exports from India (US\$ billion)

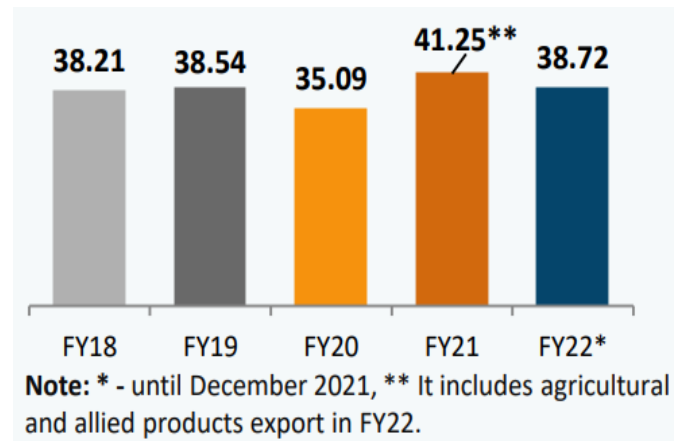
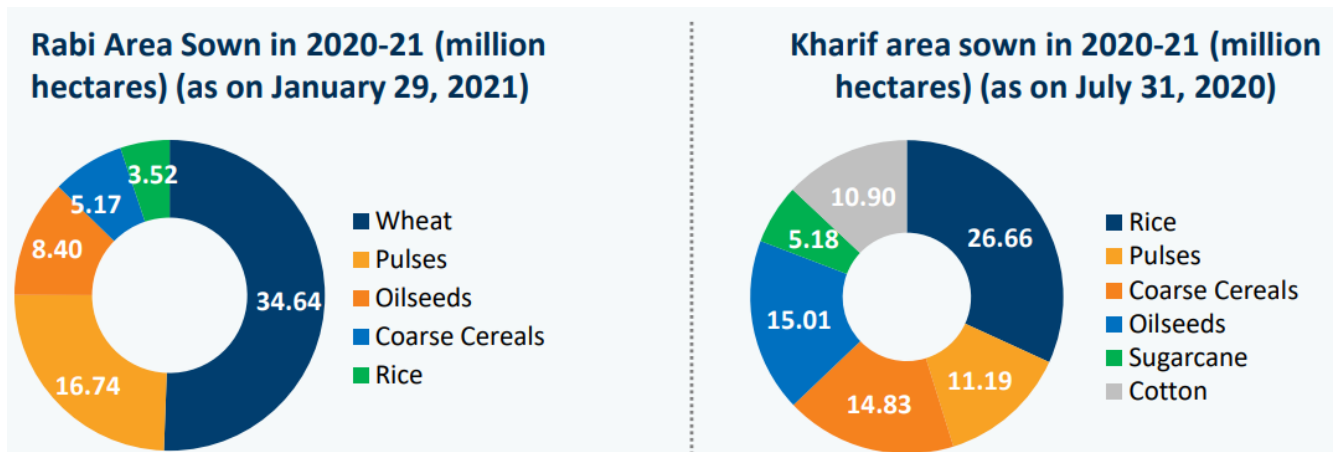


Exhibit 3: Sector composition of Agriculture and Allied Sector in India



(Source: ibef.org)

Investment Overview

Indian Seed Industry

Indian Seed industry is a sub-sector within Agri-input sector of Agriculture and allied industry. Seed is the primary input in Agriculture, which encapsulates the genetics of Plant variety. The Indian seeds market is expected to grow at a CAGR of 13.6% during 2019-2024, reaching a value of US\$ 9.1 Billion by 2024. Coupled with increasing domestic demand and demand for quality seeds in various foreign countries, mainly the South East Asian countries, seed industry in India is witnessing new paradigms of growth and development. The use of hybrid seeds has silently but consistently witnessed growth along with several other driving factors like increasing middle class and increasing disposable income, growth in the food processing sector, increasing seed replacement ratio and other allied factors. Rising awareness among the farmers related to the benefits of using certified/ quality seeds has led to an increase in the demand for seeds over the past few years. This has resulted in an increasing willingness among the farmers to pay higher price for quality seeds. When compared to the global seed production India's share is very less. India is way behind countries like USA and China in terms of total seed market size.

(Source: prospectus)

Addressable Market for Upsurge Seeds of Agriculture Limited

Company is established in Gujarat and is mainly catering the market of Gujarat. Apart from Gujarat, Rajasthan and Maharashtra are its main markets. Company has recently started expanding to other regions of India as well and is looking forward to increase its presence throughout India.

Competition

As mentioned in the prospectus, company operates in a highly competitive market and faces competition with large number of organized and unorganized players with players having larger capital base than that of the company. The industry has little barrier to entry which puts the company to a threat of competition from new entrants. The market is very fragmented and so the power to pass on the prices to its consumers is very low for the company.

Peer Analysis

The company has listed 4 peer companies in its prospectus viz. Bombay Super Hybrid Seeds Limited, Continental Seeds and Chemical Limited and Kaveri Seed Company Ltd. A comparison of the same has been depicted in the table below –

Company	Upsurge Seeds of Agriculture Limited	Bombay Super Hybrid Seeds Limited	Continental Seeds and Chemical Limited	Kaveri Seed Company Limited	Mangalam Seeds limited
Net Profit (INR Cr)	3.96	10.5	0.37	212.45	5.17
EBITDA (INR Cr)	5.66	14.22	1.64	243.81	8.29
Return on Capital Employed	37.12%	31.44%	6.55%	16.76%	14.18%
Return on Equity	35.39%	36.21%	3.08%	16.59%	11.36%
EPS (INR)	6.71 [#]	10.06	0.37	36.00	5.00
P/E* (Times)	17.88	42.44	19.32	13.21	19.03

***P/E has been calculated as on 26/07/2022**

On Post IPO Basis

The company has performed comparatively well when compared to its peer companies. The company has higher RoCE and ROE as compared to the average RoCE and ROE of the peer companies. Also the post IPO P/E also seems to be fairly priced.

Promoters' Profile

Mr. Arvindkumar Jadavjibhai Kakadia



- **Mr. Arvindkumar Jadavjibhai Kakadia** is the Promoter and Managing Director of the company.
- He has more than 23 years of experience in agriculture industry.
- He has been associated with the company since its inception.
- He is playing vital role in formulating business strategies and effective implementation of the same.

Mr. Viken Jentilal Kakadiya



- **Mr. Viken Jentilal Kakadiya** is the Promoter and Whole Time Director of the company.
- He has an experience of around 10 years in agriculture industry.
- He has been associated with the company since its inception.
- He looks after the production, Procurement and business development of the Company

Mrs. Sonalben Arvindbhai Kakadiya



- **Mrs. Sonalben Arvindbhai Kakadiya** is the Promoter, Whole Time Director and CFO of the company.
- She holds an experience of around 5 years in agriculture Industry.
- She holds a Bachelor of Arts from Saurashtra University.
- She is entrusted with the responsibilities of looking after the accounting and finance function of the Company

Analysis on the Company's Promoter and Board of Directors

Mr. Arvindkumar Jadavjibhai Kakadia, Promoter and Managing Director of the company, is associated with the company since its inception. He has around 23 years of experience in the agriculture industry. He is playing vital role in formulating business strategies and effective implementation of the same. He is entrusted with the responsibilities of expansion and overall management of the business of the Company. He is involved in taking major policy decision of the Company and has been actively involved in taking various approval regarding seeds and other matters from State and Central Government. He is also involved in the research & development of Agriculture seed and hybrid seed. He is 39 years of age and already has 23 years of experience depicting that he has been involved in the line of business from quite a young age, making it look a little surprising.

Mr. Viken Jentilal Kakadiya, Promoter and Whole Time Director of the company, is also associated with the company since its inception. He has around 10 years of experience in the agriculture industry. He looks after the production, Procurement and business development of the Company. He also takes care of the Admin & HR department as well as Marketing department of the company. He is 29 years of age and already holding 10 years of experience also shows that he has been involved in the line of business from a young age.

Mrs. Sonalben Arvindbhai Kakadiya, Promoter and CFO of the company, holds Bachelor of Arts degree from Saurashtra University. She is entrusted with the responsibilities of looking after the accounting and finance function and fulfilling the funding requirements of the company. She holds around 5 years of experience in the agriculture industry. One thing to worry is that her education background does not support the responsibilities she is taking over for the company and can be a troublesome factor in the future.

From the management analysis, it can be said that the company is a family-run business. The overall strategic decisions on a broader level is taken by Mr. Arvindkumar and the production and marketing decisions are taken by Mr. Viken. However, it seems that the Board of Directors has been made just to fulfil the listing requirements and it needs some important tactical changes.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st Mar 2022
Profit and Loss			
Revenue from operation	1,758.16	6,261.99	7,564.41
Other income	5.57	28.32	12.74
Total Revenue	1,763.73	6,290.31	7,577.15
Expenses	1,694.49	6,098.02	7,011.58
Depreciation and Amortisation Cost	14.65	51.34	82.31
Finance Cost	25.12	34.01	57.76
Total Expenses	1,734.26	6,183.37	7,151.65
PBT	29.47	106.94	425.50
PBT Margin	1.68%	1.71%	5.63%
EBITDA	69.24	192.29	565.57
EBITDA Margin	3.94%	3.07%	7.48%
Net Profit	21.92	85.31	396.44
Net Profit Margin	1.25%	1.36%	5.24%
Balance Sheet			
Total Borrowings	440.04	456.41	1,498.98
Net Worth	92.14	324.45	1,119.30
Fixed Assets	377.80	497.02	640.74
Net Working Capital	-81.14	145.44	658.45
Financial Measures			
Inventory Turnover Ratio	9.97	14.26	2.92
Receivables Turnover Ratio	7.60	21.26	24.90
Payables Turnover Ratio	27.99	29.46	6.70
Fixed Assets Turnover Ratio	4.65	12.60	11.81
Return on Capital Employed	17.86%	21.67%	37.12%
Return on Equity	23.79%	26.29%	35.39%
Debt-Equity Ratio	4.78	1.41	1.34

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 69.24 lacs in 2020 to 565.57 lacs in 2022 at a CAGR of 186%. The EBITDA Margin has grown from 3.94% in FY 20 to 7.48% in FY22 showing that the company has been able to reduce its operating cost over the years. However, 186% CAGR does not seem to be sustainable and can decrease in future in terms of percentage.

Net Profit

The net profit of the company has grown from Rs. 21.92 lacs in 2020 to Rs 396.44 lacs in 2022 at a CAGR of 325%. The net profit margin has also grown from 1.25% in 2020 to 5.24% in 2022 showing a better management of non-operating costs as well. However, like EBITDA the CAGR of Net Profit also does not seem to be sustainable and is expected to fall.

Finance Cost.

The finance cost of the company is mainly towards the secured borrowing from bank and has been increasing over years.

Financial Measures/Ratios

The financial ratios of the company have shown good strength in the recent years.

RoCE of the company has grown to 37.12% in FY 22 from 17.86% in FY 20 and is above the peer companies. If we take into consideration the new capital introduced through IPO, the RoCE is expected to fall and be at par with the peer companies.

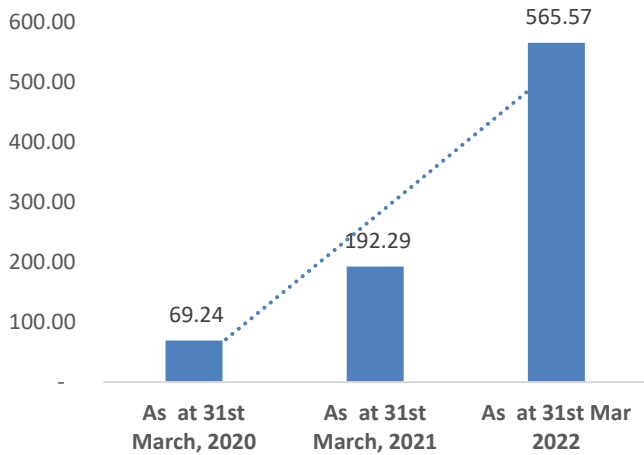
Return on Equity (ROE) of the company has grown from 23.79% in FY 20 to 35.39% in FY 22. The same is currently above the peer companies but is expected to come at par with the peers with new capital being introduced.

The company has been able to effectively manage its Receivables and Payables in the previous financial year but has performed poorly when it comes to the inventory management. The company plans to extend the credit period given to its customers in the coming times and therefore it can be said that the Receivables Turnover would reduce in future pertaining to higher Days of Sales Outstanding.

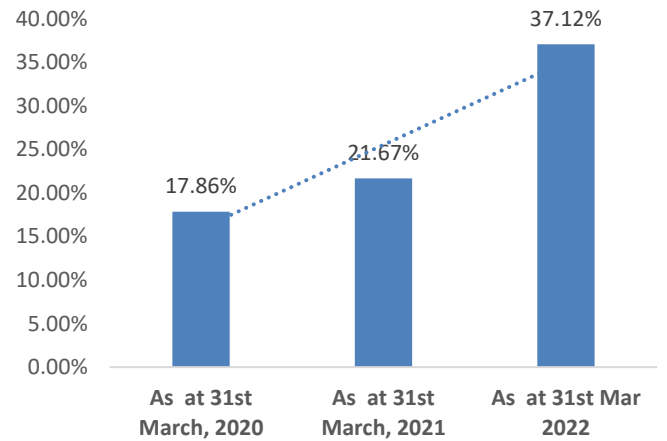
The company has been increasing its borrowing along with increase in equity. The Debt-equity ratio is currently at 1.34 times but since the company is operating at 87% of its installed capacity, it can be assumed that the company would increase its term loan to set up new set of machineries and equipment in order to increase its capacity.

Financial Graph

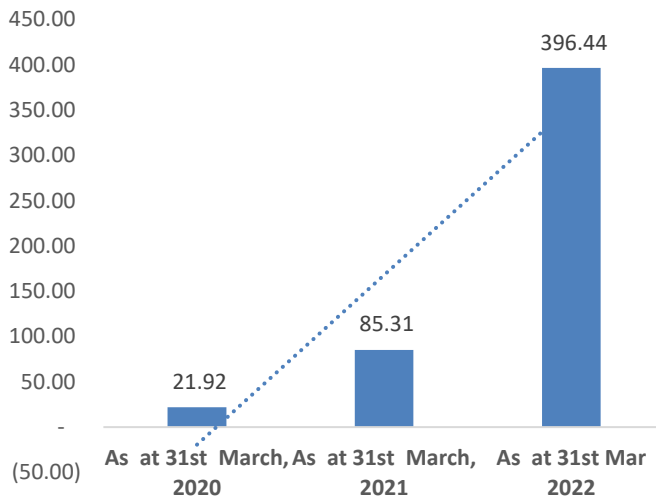
EBITDA (In Lacs)



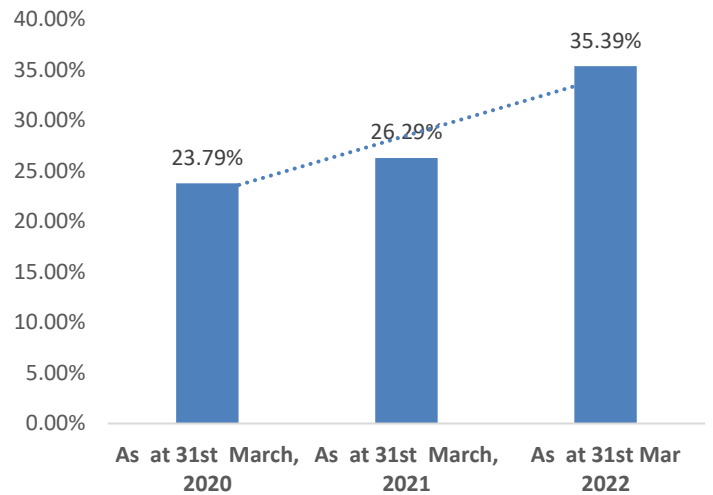
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. There are certain legal proceedings involving the Company, Directors, Promoter and Group Companies totalling to an amount of Rs. 63.47 lacs, an adverse outcome in which, may have an adverse impact on the reputation, business, financial condition, results of operations and cash flows.
2. The product of the company is exposed to weather conditions and any unfavourable weather condition could abruptly damage the seeds.
3. Company's sales from Groundnut Seeds accounts to more than 70% of total revenue.
4. Company majorly operates in the state of Gujarat and any demographical, geographical and political changes could adversely affect the business operations.
5. Company is dependent on third party farmers for growing seeds any problems with such seed growing farmers may affect company's profitability.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Finshore Management Services Limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP#
1.	ICL Organic Dairy Products Ltd.	4.08	20/-	17/02/2020	17.15
2.	DJ Mediaprint & Logistics Ltd.	2.40	20/-	13/04/2020	55.70
3.	Promax Power Ltd.	1.60	10/-	12/10/2021	18.50
4.	Dynamic Services & Security Ltd.	24.13	51/-	13/10/2021	15.00
5.	Destiny Logistics & Infra Limited	5.39	20/-	13/10/2021	18.00
6.	Timescan Logistics (India) Limited	4.81	51/-	12/01/2022	65.00
7.	Safa Systems & Technologies Ltd.	4.00	10/-	09/02/2022	11.98
8.	Shigan Quantum Technologies Limited	22.70	50/-	11/03/2022	90.20
9.	Swaraj Suiting Limited	10.68	56/-	28/03/2022	51.50
10.	Fone4 Communications (India) Limited	6.80	10/-	06/05/2022	5.95
11.	Scarnose International Limited	6.60	55/-	27/06/2022	52.00
12.	Healthy Life Agritech Limited	10.00	10/-	26/07/2022	9.34

#CMP is taken as on 26th July 2022

This is the 27th IPO of the Lead Manager, out of the last 10 listings, 2 opened at par and rest at premium.

Recommendation

The company has a track record of around 5 years and is in the business of growing and processing variety of seeds. The company has been able to generate healthy revenues for itself in the recent years. However, the profitability growth is not sustainable but is at par with the industry peers.

Company's management seems to be to only concern currently. Although the promoters are well experienced in the line of business but we believe that proper formation of Board of Directors has to be done in the coming times with hiring personnel having relevant educational background and experience for various managerial roles.

The company is getting listed at post IPO P/E of 17.88 times whereas the industry PE is 31.62 times making it a fairly priced IPO considering its size and track record.

To conclude, it can be said that the company has been performing well in its segment and one **may apply** in the IPO.

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.