

### IPO Details

<b>Opening Date</b>	Feb 09, 2023
<b>Closing Date</b>	Feb 13, 2023
<b>Stock Exchange</b>	BSE SME
<b>Lot Size</b>	4000 Shares
<b>Issue Price</b>	₹ 26 per share
<b>Issue Size</b>	50,04,000 Equity Shares
<b>Application Amount</b>	₹ 1,04,000

### IPO Objective

To meet the working Capital Requirement

Funding Capital Expenditure towards Extension, Uprooting, and Infilling of Tea Plantation

Funding Capital Expenditure towards the installation of additional plant and machinery for Tea Processing Unit

Prepayment, in full of certain borrowings availed by the company

To meet the Issue Expenses

General Corporate Purposes

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	96,05,794	96.09%
Public	3,91,254	3.91%

### Promoter of the Company

- 1 Mr. Hariram Garg
- 2 Mr. Madanlal Garg
- 3 M/s. Asian Tea & Exports

### Competitive Strengths

- 1 Organisation stability, Rich management experience and skilled team.
- 2 Smooth flow of operations.
- 3 Well-defined organizational structure
- 4 Existing Supplier Relationship.
- 5 Quality Policy.
- 6 Customer Centric Business Model.
- 7 ISO Certifications.

### Company Background

- Company was incorporated in the year 1990 in West Bengal.
- Company is engaged in Tea Plantation & Manufacturing of CTC Tea at Indong Tea Estate situated at Jalpaiguri District of West Bengal
- The Indong Tea Estate is spread over an area of 740.38 Hectares.
- In the year 2014, the Company was taken over by Asian Group.
- As on the date of prospectus company has 1346 employees on its payroll.

### Financial Summary

For the Period Ended	(In Lacs)		
	Sep-22	Mar-22	Mar-21
<b>Total Assets</b>	4,689.74	4,324.96	4,059.79
<b>Net Assets</b>	3,175.79	2,971.18	1,813.20
<b>Total Borrowings</b>	1,047.72	960.09	1,841.73
<b>Total Revenue</b>	1,324.22	1,992.98	2,313.00
<b>Profit After Tax</b>	204.61	131.62	127.56

### Tentative Timeline

<b>Opening Date</b>	Feb 09, 2023
<b>Closing Date</b>	Feb 13, 2023
<b>Basis of Allotment</b>	Feb 16, 2023
<b>Initiation of Refunds</b>	Feb 17, 2023
<b>Credit of Shares to Demat</b>	Feb 20, 2023
<b>Listing Date</b>	Feb 21, 2023

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### Company Overview

Indong Tea Company Limited incorporated in the year 1990, owns and operates a Tea Garden under Government lease and is engaged in Tea Plantation & Manufacturing of CTC Tea at Indong Tea Estate situated at Jalpaiguri District of West Bengal and is presently managed under the leadership of Sri Hariram Garg, one of the main promoters of the Company. The Indong Tea Estate is spread over an area of 740.38 Hectares which comprises of Tea Plantation, Tea Factory, Withering Trough House, Officer's Bungalows, Staff Quarters, Labour Quarters, Pump House, General Stores, Dairy Farm etc. The original Promoter of the Company were Devvrat Gupta, Shyam Saran Gupta and Nagarmal Kanoria. The main business of the company is manufacturing of Tea. In the year 2014, the Company was taken over by Asian Group.

### Analysis

The company has a very good experience in their field of operations, with the Company being in the business for almost 3 decades now. Company operates under the following verticals:

- Manufacturing of CTC Tea: Company produces only CTC (Crush/Cut, Tear, Curl) Tea. This method of processing black tea in which the leaves are passed through a series of cylindrical rollers with hundreds of sharp teeth that crush, tear, and curl the tea into small, hard pellets.

Particulars	September 30, 2022 (Rs. in Lacs)	March 31, 2022 (Rs. in Lacs)	March 31, 2021 (Rs. in Lacs)
<b>Revenue from Operations*</b>			
Manufacturing			
• CTC Tea	1,319.24	1,927.42	2,305.64
• Clonal Cutting	0.03	21.24	1.10
<b>Total</b>	<b>1,319.27</b>	<b>1,948.66</b>	<b>2,306.74</b>

Company teas are sold majorly around 98% in Auction. Company sales are divided into two parts:

- Sales through Auction
- Direct Sales to Private Buyers

The following is the breakup of the top five and top ten customers/suppliers of the Company for the Fiscal 2022, 2021 and 2020 are as follows:

Particulars	FY 2021-22		FY 2020-21		FY 2019-20	
	Amount	In %	Amount	In %	Amount	In %
<b>Top 5 Customers</b>	1907.75	97.90%	2290.91	99.28%	1534.39	99.05%
<b>Top 10 Customers</b>	1928.83	98.98%	2299.24	99.67%	1544.04	99.67%
<b>Top 5 Suppliers</b>	25.10	100.00%	186.72	100.00%	110.93	100.00%
<b>Top 10 Suppliers</b>	25.10	100.00%	186.72	100.00%	110.93	100.00%

Capacity And Capacity Utilization:

Tea Garden:

Particulars	F.Y. 2021-22	F.Y. 2020-21	F.Y. 2019-20
Plantation Capacity (In Hectares) *	492.09	492.09	492.09
Actual Capacity Utilization (In Hectares) *	492.09	492.09	483.84
% Of Utilization	100.00%	100.00%	98.32%

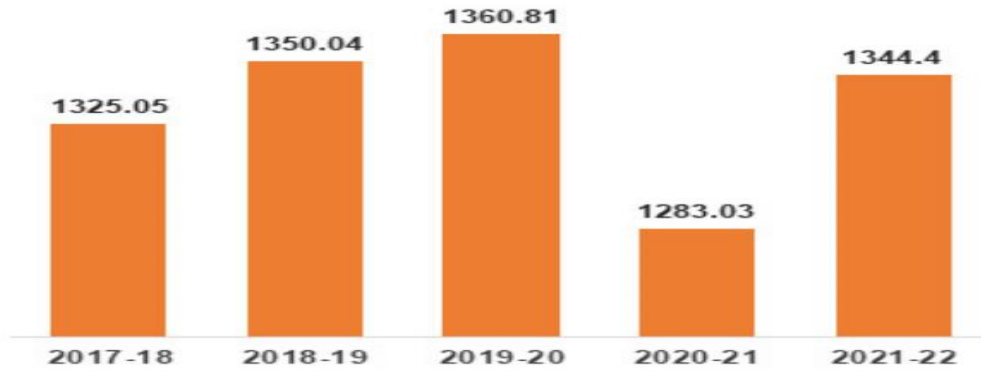
Tea Factory:

Particulars	F.Y. 2021-22	F.Y. 2020-21	F.Y. 2019-20
Production Capacity (In MTPA) *	1,600.00	1,600.00	1,600.00
Actual Capacity Utilization (In MTPA) *	982.59	1,210.23	1,121.49
% of Utilization	61.41%	75.64%	70.09%

Overall, the company has a good Prospect but with a concentrated portfolio company may face difficulty in future. The company also operates in highly Seasonal industry & thus demand fluctuate; capacity is not fully utilized.

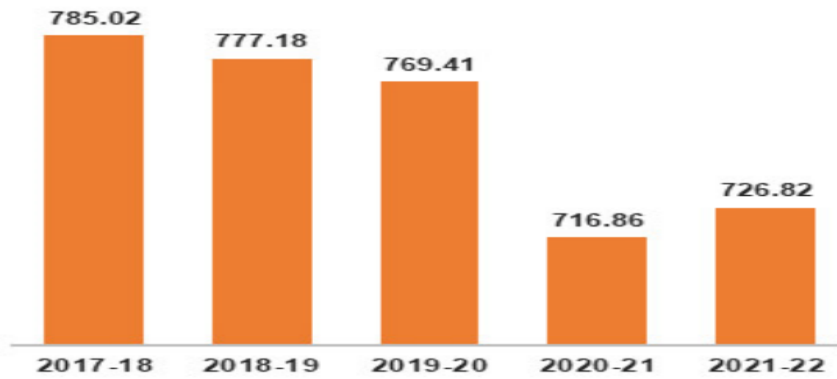
### Industry Charts

Exhibit 1: Tea Production in India (Million Kg)



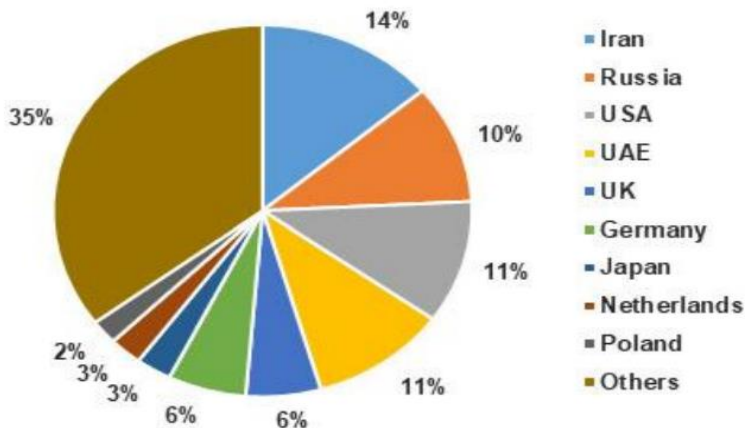
Source: Tea Board of India

Exhibit 2: India Tea Exports (US\$ million)



Source: Tea Board of India

Exhibit 3: India's country wise share revenue from tea exports (2021-22)



Source: Tea Board of India

(Source: prospectus)

## Investment Overview

### TEA INDUSTRY

India is the second-largest producer of tea globally. Indian tea is one of the finest in the world due to strong geographical indications, heavy investment in tea processing units, continuous innovation, augmented product mix, and strategic market expansion. As of a 2018 survey, a total of 6.37 lakh hectares of area was cultivated in India for tea production. India is also among the world's top tea consuming countries, with 80% of the tea produced in the country consumed by the domestic population. India's total tea production for the calendar year 2020 was 1,257.52 million kg and for the financial year 2020-21 it was 1,283 million kg. In May 2022, India's tea production stood at 127.11 million kgs, and it was at 91.77 million kg in April 2022. From January-September 2022, India's tea production stood at 984.67 million kg.

The northern part of India is the biggest producer at about 83% of the country's annual tea production in 2021-22 with the majority of the production coming from Assam followed by West Bengal. The Assam valley and Cachar are the two tea producing regions in Assam. In West Bengal, Dooars, Terai and Darjeeling are the three major tea producer regions. The southern part of India produces about 17% of the country's total production with the major producing states being Tamil Nadu, Kerala, and Karnataka. Growth was negatively affected in 2020 due to the COVID-19 outbreak, which severely disrupted the value chain. The market may gradually recover over the forecast period due to government initiatives aimed at reviving the economy.

India is among the top 5 tea exporters in the world making about 10% of the total exports. In the year 2021, the total value of tea exports from India was around US\$ 687.9 million. Indian Assam, Darjeeling, and Nilgiri tea are considered one of the finest in the world. India's total tea exports during 2021-22 in quantity was 201 million kg. The total exports during January-April 2022 was 65 million kg and was valued at US\$ 215 million, a 9% increase from the same period in 2021. The exports from India in terms of quantity for the period January-December 2021 was 197 million kg with the total export value of US\$ 718 million (a 1.7% increase from 2020).

*(Source: Prospectus)*

### Addressable Market for Indong Tea Company Limited

The company currently sells its products domestically. As a part of Company's growth strategy their focus is on increasing sales volume through expansion, diversification and spread in geographical outreach.

### Competition

The tea industry in India is very unorganized and highly fragmented and the main challenges lies in quality, reliability, pricing and goodwill to mention the least in India. There are no entry barriers in the industry which puts us to the threat of competition from new entrants as there are numerous players operating in the industry. Company faces tough competition in the business from a large number of unorganized as well as from organized players operating in the similar space. Many of the company's competitors have substantially large capital base and resources than the company and offer broader range of products and services.

### Peer Analysis

As provided in the prospectus, the company has mentioned 4 listed company as its peer viz. Tata Consumer Products Ltd, Goodricke Group Ltd, Dhunseri Tea & Industries Ltd and Neelamalai Agro Industries Ltd-

Company	Indong Tea Company Limited	Tata Consumer Products Ltd	Goodricke Group Ltd	Dhunseri Tea & Industries Ltd	Neelamalai Agro Industries Ltd
Net Profit (INR Cr)	1.32	935.78	5.28	-94.24	32.50
EBITDA (INR Cr)	3.33	1,806.78	36.28	-57.55	34.53
Return on Capital Employed	6.60%	8.80%	3.39%	6.92%	-0.04%
Return on Equity	4.43%	6.18%	1.63%	-12.59%	14.86%
EPS# (INR)	1.01	10.15	2.44	-89.69	522.46
P/E* (Times)	25.79	73.18	80.37	-2.57	7.06

### #EPS on post IPO basis

\*As on 06/02/2023

### Promoters' Profile and Management Analysis

#### Mr. Hariram Garg



- Hariram Garg, aged 76 years, is the Promoter and Managing Director of the company
- He is a Matriculate
- He has more than 40 years of experience in the field of Finance, Retail, Real Estate, Chemical & Fertilizer, Rice & Pulses and Tea Plantation & Processing.

#### Mr. Madan Lal Garg



- Madan Lal Garg, aged 73 years, is the promoter and executive director of the company.
- He has passed primary school
- He has more than 35 years of experience in the field of Chemicals & Fertilizer and Tea

#### Asian Tea and Exports Limited

- Asian Tea and Exports Limited is the corporate promoter of the company.
- The company was incorporated in the year 1994.
- Asian Tea and Exports Limited is a listed public company and is in the business of trading of Tea, Pulses, Rice etc.



## **Analysis on the Company's Promoter and Board of Directors**

**Mr. Hariram Garg**, aged 76 years is the managing director of the company. He is a planter in the real sense of the word, the founder of the group, born and brought up in the very heart of the tea belt in Northern India. The group has grown from tea plantation to tea exports and other activities like marketing and distribution of various commodities and real estate development. He was facilitated with the honour as TEA MAN of the year. He has also been awarded the ICON OF NORTH BENGAL award for excellence in the field of Tea Industry and Social Activities in 2021. He has more than 40 years of experience in the field of Finance, Retail, Real Estate, Chemical & Fertilizer, Rice & Pulses and Tea Plantation & Processing.

**Mr. Madan Lal Garg**, aged 73 years, is the younger brother of Sri Hariram Garg. He is also actively participated in Tea Garden of the Company. Apart of this tea Garden, he is also managing the state of affairs of other Tea Gardens like Debijhora Tea Estate & Azamabad Tea Estate. He is also holding position of directorship in the Group Companies. He has more than 35 years of experience in the field of Chemicals & Fertilizer and Tea.

**Mr. Rajesh Garg**, aged 56 years, is non-executive director of the company. He is a commerce graduate from Calcutta University. He started his career managing the timber and wood processing plant, handling a large pool of workers and having first-hand experience of running a manufacturing unit. He has over 28 years' experience in business of Tea.

To conclude, the company's Individual promoters and corporate promoter are very well experienced in the business in which company operates. However, majority of the Promoters and the Managing Director are highly experienced and more than 70 years of age. The independent director of the company can be a good driving force, but it seems it could have been constructed in a more thoughtful manner as it looks like it has just been formed to meet the regulatory requirements.

### Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 30th Sep, 2022
<b>Profit and Loss</b>			
Revenue from operations	2,306.74	1,948.66	1,319.27
Other income	6.26	44.32	4.95
Total Revenue	2,313.00	1,992.98	1,324.22
	82%	83%	75%
Expenses	1,887.40	1,616.01	991.52
Depreciation and Amortisation Cost	90.44	103.22	55.58
Finance Cost	210.43	161.01	54.78
Total Expenses	2,188.27	1,880.24	1,101.88
PBT	124.73	112.74	222.34
PBT Margin	5.41%	5.79%	16.85%
EBITDA	419.34	332.65	327.75
EBITDA Margin	18.18%	17.07%	24.84%
Net Profit	127.56	131.62	204.61
Net Profit Margin	5.53%	6.75%	15.51%
<b>Balance Sheet</b>			
Total Borrowings	1,841.73	960.09	1,047.42
Net Worth	1,813.20	2,971.18	3,175.79
Fixed Assets	3,728.75	3,903.73	3,894.57
Net Working Capital	-505.41	-488.97	-57.91
<b>Financial Measures (Annualised)</b>			
Inventory Turnover Ratio	11.62	10.60	6.19
Receivables Turnover Ratio	178.82	34.37	16.03
Payables Turnover Ratio	2.00	0.24	-
Fixed Assets Turnover Ratio	0.62	0.50	0.70
Return on Capital Employed	10.11%	6.60%	10.57%
Return on Equity	7.04%	4.43%	8.74%
Debt-Equity Ratio	1.02	0.32	0.21

(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. 419.34 lacs in 2021 to Rs. 332.65 lacs in 2022 and on 30<sup>th</sup> Sep 2022 it was Rs. 327.75 lacs and if we annualise the same it would be around Rs. 655.50 lacs. The EBITDA on annualised basis has grown at a CAGR of 25.03%. The EBITDA margin in 2021 was 18.18%, 17.07% in 2022 and 24.84% up to 30<sup>th</sup> Sep 2022. The increase in EBITDA margin is due to increase in closing inventory as on 30<sup>th</sup> Sep 2022 leading negative amount being reported in statement of profit and loss.

### **Net Profit**

The net profit of the company has grown from Rs 127.56 lacs in 2021 to Rs. 131.62 lacs in 2022 and as on 30<sup>th</sup> Sep 2022 it was Rs. 204.61 lacs and if we annualise the same it would be around Rs. 409.22 lacs growing at a CAGR of 79.11%. The net profit margin in 2021 was 5.53%, 6.75% in 2022 and 15.51% up to 30<sup>th</sup> Sep 2022. The net profit margin has grown due decrease in Finance cost and increase in closing inventory as on 30<sup>th</sup> Sep 2022. We believe that the net profit margin would come down to a sustainable level in coming times.

### **Finance Cost.**

The company's finance cost mainly due to short terms borrowings and long term borrowings availed by the company.

### **Financial Measures/Ratios**

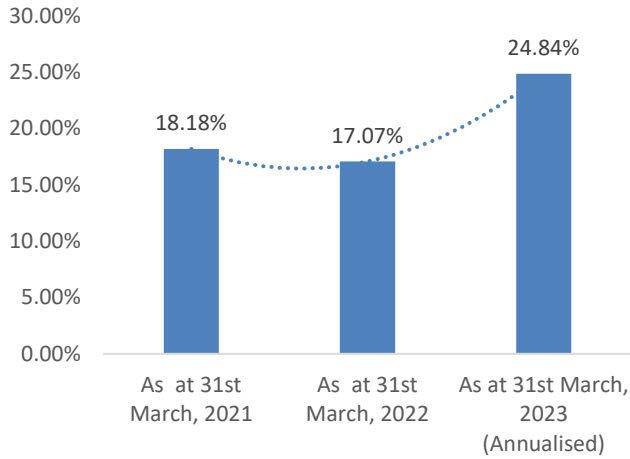
RoCE of the company up to 30<sup>th</sup> Sep 2022 is 6.94% vs 6.60% in 2022 and 10.11% in 2021. If we annualise the ROCE of FY 2022-2023, the ROCE is expected to be around 10.57%. The RoCE is expected to decrease due to increase in new capital brought in by the company in the form of equity.

ROE of the company in 2021 was 7.04%, 4.43% in 2022 and 6.44% up to Sep 2022, if annualised, ROE would be around 8.74%. The ROE is expected to rise due to substantial increase in the net profit of the company.

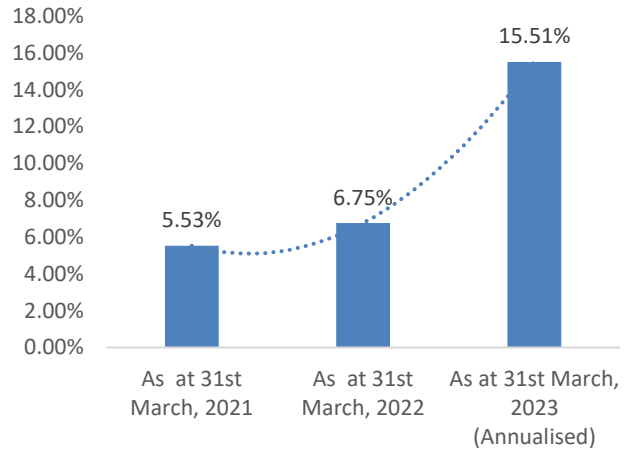
The company has a debt-equity ratio of 0.32 which shows the company is decently leveraged but could better utilise debts in their favour. The debt-equity ratio is going to go further down to around 0.21 times post IPO.

### Financial Charts

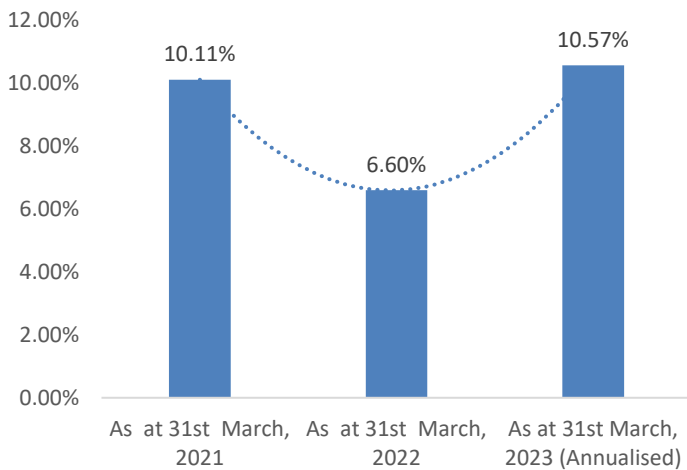
#### EBITDA Margin



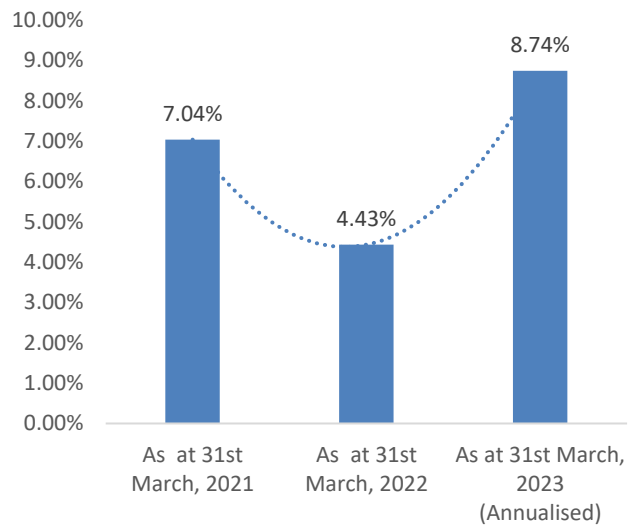
#### Net Profit Margin



#### Return on Capital Employed



#### Return on Equity



### Key Risk Factors

1. Company and Group Company are involved in certain litigations including tax related litigations totalling to an amount of Rs. 898.24 lacs, which if determined against them, can affect financial conditions of the company. There is also an unquantifiable amount in litigation of the company.
2. Company operations are sensitive to weather conditions and seasonable.
3. Company had incurred loss in one of the last three financial year.
4. Company's revenue derives from only sales of CTC Tea.
5. The company is exposed to foreign exchange fluctuations.

## Track Record of 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.	Swaraj Suiting Limited	10.68	56/-	28/03/2022	46.40
2.	Fone4 Communications (India) Limited	6.80	10/-	06/05/2022	6.70
3.	Scarnose International Limited	6.60	55/-	27/06/2022	56.50
4.	Healthy Life Agritech Limited	10.00	10/-	26/07/2022	6.53
5.	Agni Green Power Limited	5.25	10/-	01/08/2022	24.30
6.	Upsurge Seeds of Agriculture Limited	22.81	120/-	11/08/2022	825.00
7.	Naturo Indiabull Limited	10.92	30/-	02/09/2022	12.11
8.	Mega Flex Plastics Limited	11.40	40/-	19/09/2022	39.50
9.	Containe Technologies Ltd	2.62	15/-	30/09/2022	84.40
10.	Arham Technologies Limited	9.58	42/-	15/12/2022	69.00

### #CMP is taken as on 6th February 2023

This is the 33rd IPO of the Lead Manager, out of the last 10 listings, 2 opened at discount, 2 at par, and the rest with premiums ranging from 0.91% to 150% on the day of listing.

### Recommendation

The company has a good track record of existence with being incorporated in the year 1990 and being taken over by current promoters in 2014.

The product portfolio of the company is concentrated. The Revenue growth of the company has been good in recent years; however, the company has faced loss in one of the last three financial year.

The management of the company is highly experienced in their respective fields of business; however, the independent directors of the company seem to be selected as an obligatory requirement and the individual promoters are above the age of 70 years.

The PE of the company on Post IPO basis comes to around 25.79 times which makes it a fairly priced issue.

To conclude, there are more negatives for the company, then positives. The industry prospect is good but is highly competitive which is also visible in the company's margins. So, one who is **risk taker may apply** in the IPO and **risk averse should wait** and see if the company can capitalise on the opportunities.

### 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.**