



IPO REPORT



INDO FARM EQUIPMENT LIMITED

28 DEC 2024

RATING: AVOID

REASON: ASKING FOR HIGH VALUATION
COMPARED TO ITS LISTED PEERS WHILE
HAVING LOWER PROFIT MARGINS AND
HIGHER DEBT COST

VISHAL TREHAN

Your Partner for Stock Market
Investments

Reg. Number INH000016816

ABOUT THE ISSUE

Issue Date	31 Dec, 2024 to 2 Jan, 2025
Price Band	₹204-₹215
BidLot	69 shares
Issue Size	₹260 cr
No. of Shares (Post Issue)	4.8 cr
Offer for Sale	29% (this goes to promoters pocket)
Fresh issue	71% (this goes to company accounts)
Post-Issue Implied Market Cap	~₹1033 cr
Listing at	BSE, NSE





INDO FARM EQUIPMENT LIMITED

Two decade old fully integrated established manufacturer of Tractors 52.16% of revenue and & Pick & Carry Cranes (47.77% of revenue).

Also operate asset financing business (with focus on retail financing of tractors) through our wholly owned subsidiary named as “Barota Finance Limited”, which is a RBI registered NBFC



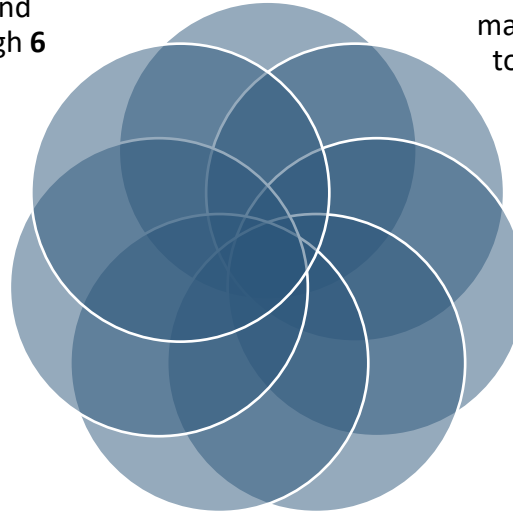
BACKWARD INTEGRATED MANUFACTURER

Indo Farm commenced commercial production of tractors in October 2000

Indo Farm operates pan-India and is a well recognized brand, associated with quality and dependability. The company operates through **6 regional offices** and a **173 strong dealer network** for sales and service.

The company has its state-of-the-art foundry equipped with induction furnaces in order to ensure better quality as well as to ensure uninterrupted supply

Engines being the company's core competence area, they are now making engines for generator sets that are exported to more than 8 countries in Europe



in 2008, they diversified into manufacturing and marketing of Pick-N-Carry cranes of 9 tonnes – 30 tonnes capacity and commenced production of mobile tower cranes

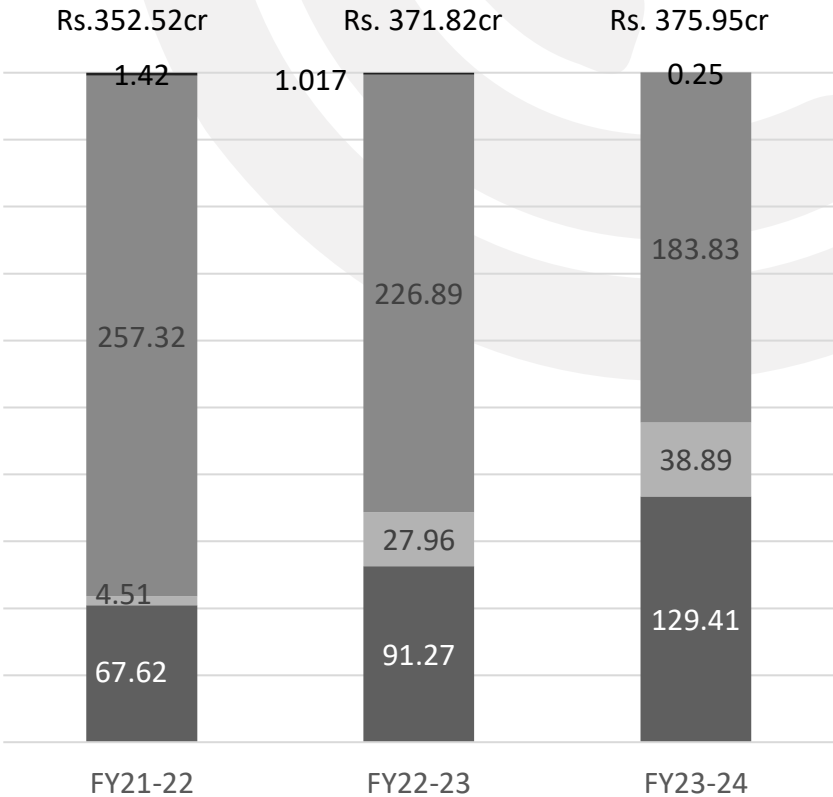
Production unit is situated in Baddi, Himachal Pradesh, and it is spread over **34 acres**. Installed Capacity of 12,000 tractors and **1,280 Cranes per annum**. (**expansion plans to add 3600 cranes p.a more capacity at is allotted land in Baddi**. **Currently capacity utilization has hit 99%. Portion of IPO proceeds will be used here**)

Within a year of their operations, they successfully indigenized the engine components, manufacturing and assembly processes and stopped import of engines.

SOME OTHER KEY FACTS

- Their total sales for last three financial years include around 93% domestic sales and around 7% export sales
- Products are marketed and distributed by 175 dealers from various states such as Punjab, Haryana, Uttar Pradesh, Maharashtra, Gujarat, Rajasthan etc.
- Their top ten customers/ dealers contribute to 23.13%, 19.73% and 23.63% for the financial year ended March 31, 2024, March 31, 2023 and March 31, 2022
- This is a very small player among the major players like Mahindra & Mahindra, John Deere, International Tractors (Sonalika), Tractors & Farm Equipment (TAFE), Escorts and so they don't have significant market share in the industry
- Fully Integrated and established Manufacturing Setup. Over 330 components used in making a tractor and over 190 components used in making Crane are manufactured in-house by our company and hence we are able to manage our cost and quality competitiveness in both of our segments.
- Their Pick & Carry Cranes sales have grown at a CAGR of 44.77% in the last 3 years

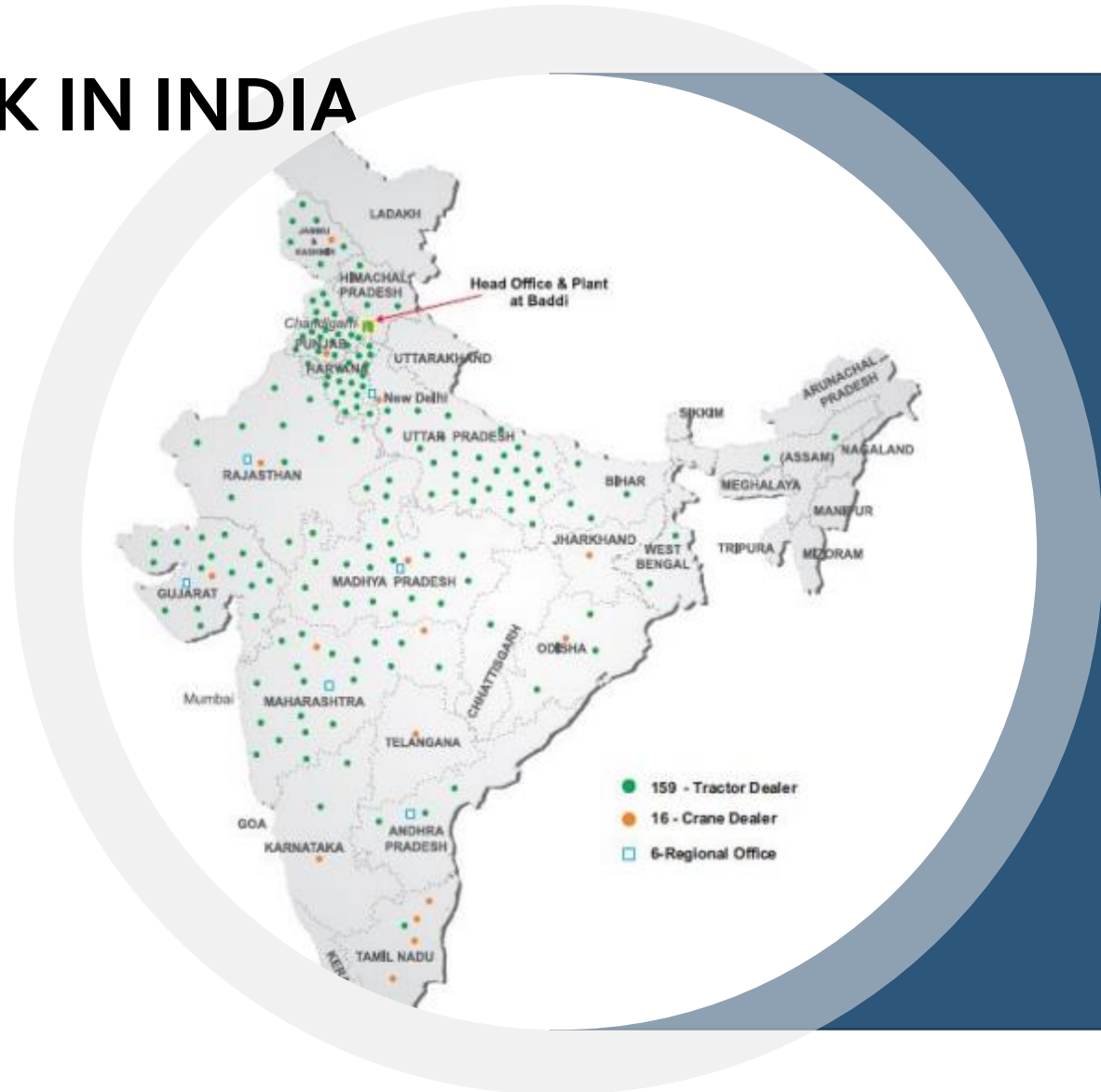
REVENUE SPLIT (RS.CR)



■ Crane Sales - Direct ■ Crane Sales - Dealers ■ Tractor Sales ■ Others

DISTRIBUTION NETWORK IN INDIA

- Majority of products are sold through dealer network chain
- They have around 159 and 16 dealers for tractor and cranes respectively and which also includes 12 dealers for services and stock spare parts
- Further plans is to increase dealer base to 500 in the next three years they look to ramp up production and sales after infusion of fresh equity capital

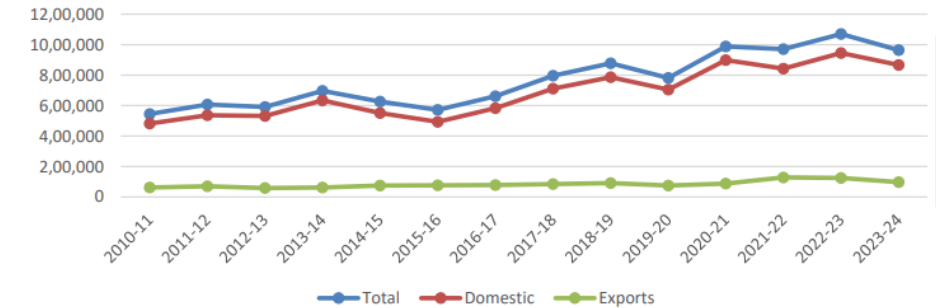


TRACTOR MARKET OUTLOOK

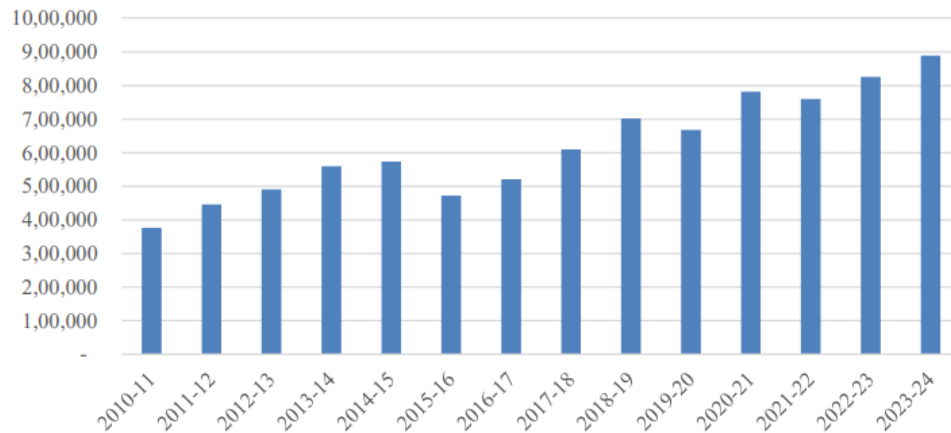


- India is one of the largest tractor markets in the world, selling ~ 8,74,000 tractors per annum on average and the Indian tractors market is projected to witness a CAGR 4-5%
- Market size is estimated at ~Rs.600billion in 2024. It is expected to reach ~Rs.800billion by 2029, growing at a CAGR of 5-6%

Trend of production of tractors in last 10 years (numbers)

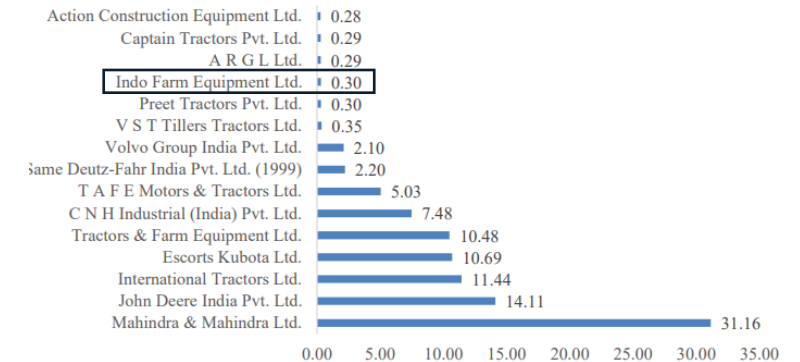


Trend of Tractor registration in India

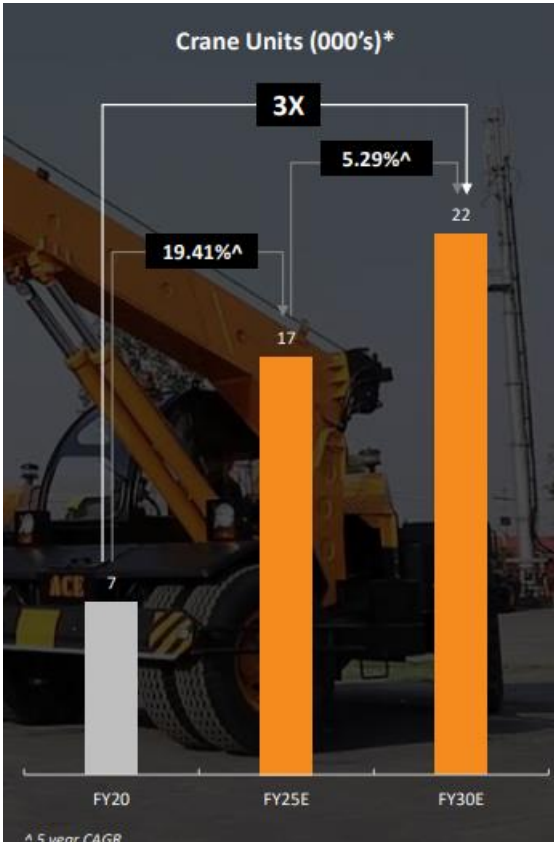


- Indo Farm ranks 12th for Tractors sales in India and has less than <1% market share

Tractor Industry Market share (%) in 2022-23 - Top 15 Players

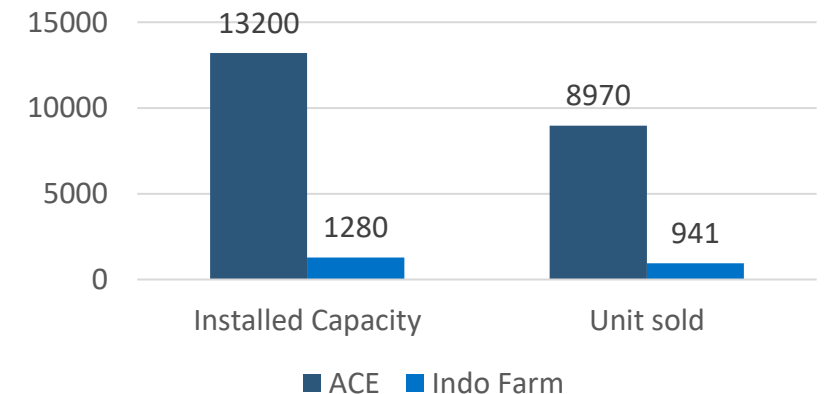


CRANE MARKET OUTLOOK



- Asia Pacific Crane market is expanding at a fast pace in recent years and is projected to become 3x by 2030 as compared to what it was in 2020, owing to growing construction activities in emerging economies, such as China, India, and the Philippines.
- Key factors driving the demand mobile cranes market is the rising investments in infrastructure development
- Manufacturing sector with US\$ 1 Trillion potential by 2025 will be another major driver for Cranes, apart from upcoming industrial capex cycle.

- ACE is the largest player in India with 63% market share of mobile cranes
- Indo Farm is 1/10th of its size as of now. They are planning to 4x their capacity by adding 3600 units production capacity



Key Financial Highlights

- *Company topline is stagnant due to falling sales of tractors, while it is compensated for higher sales of cranes which is witnessing rapid growth*
- *Company is planning to 4x its Crane manufacturing capacity, which I think is over ambitious project*
- *Currently debt to equity ratio is in control but I expect it to increase in future due to high capex planned, which will require some debt in addition to capital being raised now*
- *Increased debt and interest burden will lower the free cash flow generation capacity and lower share holder returns*

Period Ended	FY	FY	FY
	31-Mar-22	31-Mar-23	31-Mar-24
P&L Key Stats			
Tractor	257.32	226.89	183.83
Crane	72.13	119.23	168.3
Others	1.42	1.017	0.25
Revenue	352.52	371.82	375.95
Profit After Tax	13.72	15.37	15.6
% of sales	3.9%	4.1%	4.1%
RoCE (%)	8.0%	9.0%	9.0%
Balance Sheet Key Stats			
Net Worth	275	290	317
Reserves and Surplus	256	272	280
Total Borrowing	275	281	272
Debt to Equity Ratio (in times)	1.0	1.0	0.9


Benchmarking and my take

	Escorts Kubota	ACE	VST Tiller Tractors	Indo Farm
Market Cap	Rs.35,246 cr	Rs.17,273 cr	Rs. 4,355 cr	Rs. 1033 cr
Revenue	Rs.9,742 cr	Rs.2,914 cr	Rs 917 cr	Rs. 375 cr
EBITDA margin	13.38%	16.49%	18.21%	16.66%
PAT Margin	11.85%	11.26%	11.90%	4.16%
RoCE%	16.10%	42.30%	17.60%	9.00%
Debt to Equity	0.01	0.08	0.01	0.72
P/E ratio	30.3	47.2	36.3	51.8


- Indo Farm is coming with upper price band of Rs 215 per share and that means a PE of >50, which seems expensive when compared with listed peers
- ***Higher debt to equity ratio and lower net profit margin does not support the valuation which the company is asking.***
- ***My take is to avoid the IPO as I don't expect much listing gains. And prospects of rising share price after listing at this valuation is dim***




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