

November 02, 2017

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Rating	BUY
Price	Rs717
Target Price	Rs880
Implied Upside	22.7%
Sensex	33,600
Nifty	10,441

(Prices as on November 01, 2017)

Trading data

Market Cap. (Rs bn)	22.1
Shares o/s (m)	30.8
3M Avg. Daily value (Rs m)	128.6

Major shareholders

Promoters	72.22%
Foreign	1.06%
Domestic Inst.	0.27%
Public & Other	26.45%

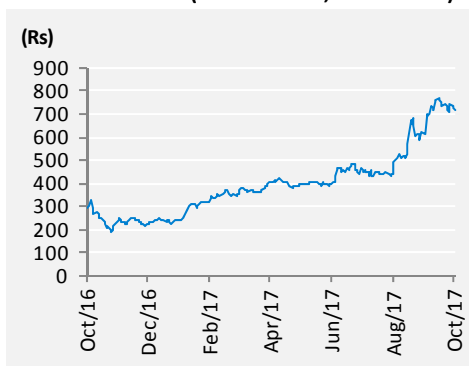
Stock Performance

(%)	1M	6M	12M
Absolute	14.8	78.3	115.4
Relative	7.4	66.0	94.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	47.9	46.3	3.6
2019	58.7	52.8	11.1

Price Performance (RIC: IGPT.BO, BB: IGPL IN)



Source: Bloomberg

■ **In-line performance:** IGPL's reported Q2FY18 results with EBITDA of Rs601mn (PLe: Rs588mn) (+76%YoY, -14%QoQ) and PAT of Rs336mn (PLe: Rs332mn) (+66%YoY, -14%QoQ). During Q2, IGPL had initiated one-month plant shutdown at one of their three plants for changing the catalysts. This resulted in lower PAN volumes of 34,000MT in Q2FY18 against 39,000MT in Q1FY18, which has since come back on stream. Also, for Q2FY18, higher other expenses of Rs261m (+44%YoY, -14%QoQ), due to catalyst changes impacted operating profits.

■ **Healthy profitability trend continues, upgrade margins:** IGPL's profitability trend continue to improve with OPM margin of 24.9% for Q2FY18 (+1,150 bps YoY, +140bps QoQ). For H1FY18, EBIDTA margins were at 24.2%(+830 bps YoY). IGPL's profitability is likely to remain robust given limited global capacity additions in PAN along with benign raw material price, OX. To factor in healthy margin trend, we increase our EBIDTA margins to 21.3%/21.4% for FY19/20E against ~19.7% earlier.

■ **Upgrade earnings, maintain BUY:** IGPL is world's third largest Phthalic Anhydride (PAN) player with capacity of 169,110MT. IGPL with its market leading capacity is well placed to capitalise on downstream growth opportunities. Supported by healthy margin trend and increased capacity addition at plasticiser plant (utilisation of 30%/50% for FY19/20E), we increase our FY19/20E EPS by 10%/12% respectively. Also, well capitalised balance sheet and healthy ROEs of ~28% are other positives. We reiterate BUY with PT of Rs880 (Rs709 earlier) based on 15x FY19E.

Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	9,528	10,375	11,671	12,337
Growth (%)	(19.8)	8.9	12.5	5.7
EBITDA (Rs m)	1,134	1,641	2,296	2,630
PAT (Rs m)	604	1,016	1,476	1,808
EPS (Rs)	19.6	33.0	47.9	58.7
Growth (%)	578.6	68.3	45.3	22.5
Net DPS (Rs)	—	—	—	—

Profitability & Valuation

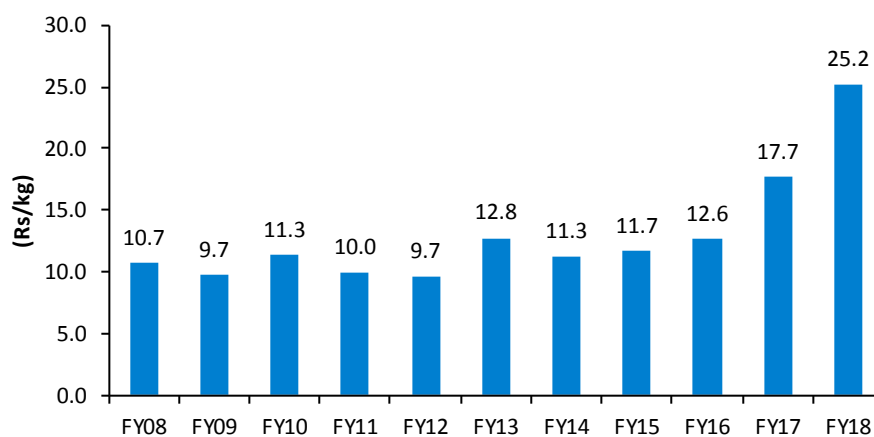
	2016	2017	2018E	2019E
EBITDA margin (%)	11.9	15.8	19.7	21.3
RoE (%)	22.8	29.7	31.6	28.6
RoCE (%)	20.0	26.9	25.8	22.4
EV / sales (x)	2.4	2.2	1.9	1.6
EV / EBITDA (x)	20.2	13.7	9.5	7.7
PE (x)	36.6	21.8	15.0	12.2
P / BV (x)	7.6	5.6	4.1	3.1
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

Exhibit 1: Q2FY18 Result Overview (Rs m)

	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Sales	2,409	2,537	(5.1)	3,226	5635	5311	6.1
Less: Excise Duty	-	-		267			
Net Sales	2,409	2,537	(5.1)	2,959	5368	5093	5.4
Other operating income	-	12		-	-	-	
Income From Operations	2,409	2,550	(5.5)	2,959	5368	5105	5.1
Total Expenditure	-	-		-			
EBIDTA	601	342	75.6	696	1297	808	60.5
<i>% of NS</i>	<i>24.9</i>	<i>13.5</i>		<i>23.5</i>	<i>24.2</i>	<i>15.9</i>	
Depreciation	56	44	27.8	51	107	86	24.2
EBIT	545	299	82.6	645	1190	722	64.8
Interest	35	47	(25.4)	52	87	98	-11.3
Other Income	6	6	(0.3)	10	16	16	0.8
Exceptional Items	-	-		-			
PBT	516	258	100.3	603	1119	640	74.8
Current Tax	162	55	194.5	195	356	136	161.1
Deferred Tax	18	-		17	35	0	
Tax	180	55	227.3	212	391	136	186.8
<i>Tax rate %</i>	<i>34.8</i>	<i>21.3</i>		<i>35.1</i>			
Profit After Tax	336	203	65.9	391	728	504	44.5

Source: Company Data, PL Research

Exhibit 2: IGPL's gross margins have more than doubled over last decade


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	9,528	10,375	11,671	12,337
Raw Material Expenses	7,341	7,512	7,870	8,093
Gross Profit	2,188	2,863	3,801	4,244
Employee Cost	298	397	489	540
Other Expenses	756	825	1,015	1,073
EBITDA	1,134	1,641	2,296	2,630
Depr. & Amortization	175	172	174	188
Net Interest	227	180	32	42
Other Income	36	28	113	298
Profit before Tax	767	1,317	2,203	2,698
Total Tax	164	301	727	890
Profit after Tax	604	1,016	1,476	1,808
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	604	1,016	1,476	1,808
Avg. Shares O/S (m)	30.8	30.8	30.8	30.8
EPS (Rs.)	19.6	33.0	47.9	58.7

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	695	355	250	774
C/F from Investing	(64)	(157)	(974)	(702)
C/F from Financing	(644)	(573)	823	280
Inc. / Dec. in Cash	(13)	(375)	99	352
Opening Cash	182	169	301	1,950
Closing Cash	169	(207)	400	2,302
FCFF	491	299	1,002	886
FCFE	107	(2)	2,005	1,389

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	(19.8)	8.9	12.5	5.7
EBITDA (%)	43.5	44.7	39.9	14.6
PAT (%)	578.6	68.3	45.3	22.5
EPS (%)	578.6	68.3	45.3	22.5
Profitability				
EBITDA Margin (%)	11.9	15.8	19.7	21.3
PAT Margin (%)	6.3	9.8	12.6	14.7
RoCE (%)	20.0	26.9	25.8	22.4
RoE (%)	22.8	29.7	31.6	28.6
Balance Sheet				
Net Debt : Equity	0.3	0.1	(0.1)	(0.3)
Net Wrkng Cap. (days)	10	20	32	34
Valuation				
PER (x)	36.6	21.8	15.0	12.2
P / B (x)	7.6	5.6	4.1	3.1
EV / EBITDA (x)	20.2	13.7	9.5	7.7
EV / Sales (x)	2.4	2.2	1.9	1.6
Earnings Quality				
Eff. Tax Rate	21.3	22.9	33.0	33.0
Other Inc / PBT	4.6	2.1	5.1	11.1
Eff. Depr. Rate (%)	2.5	2.4	2.4	2.2
FCFE / PAT	17.7	(0.2)	135.9	76.8

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	2,918	3,933	5,409	7,216
Total Debt	925	624	1,627	2,129
Other Liabilities	18	406	937	1,612
Total Liabilities	3,861	4,963	7,973	10,957
Net Fixed Assets	3,266	3,282	4,195	5,007
Goodwill	—	2	—	—
Investments	3	185	185	185
Net Current Assets	591	1,496	3,592	5,766
<i>Cash & Equivalents</i>	<i>169</i>	<i>301</i>	<i>1,950</i>	<i>4,013</i>
<i>Other Current Assets</i>	<i>2,348</i>	<i>3,205</i>	<i>3,807</i>	<i>4,002</i>
<i>Current Liabilities</i>	<i>1,926</i>	<i>2,010</i>	<i>2,165</i>	<i>2,250</i>
Other Assets	—	—	—	—
Total Assets	3,861	4,964	7,973	10,957

Quarterly Financials (Rs m)

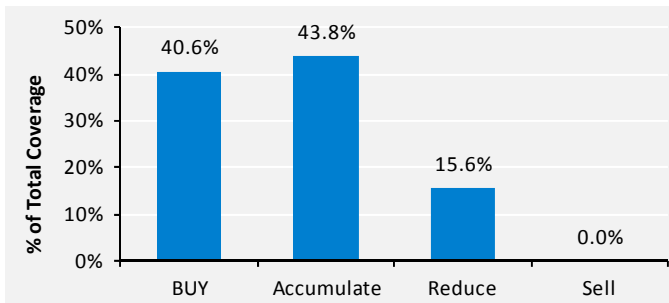
Y/e March	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Net Revenue	2,537	2,377	2,893	2,959
EBITDA	330	376	456	696
<i>% of revenue</i>	<i>13.0</i>	<i>15.8</i>	<i>15.8</i>	<i>23.5</i>
Depr. & Amortization	44	44	42	51
Net Interest	47	43	40	52
Other Income	6	7	6	10
Profit before Tax	245	296	381	603
Total Tax	55	64	100	212
Profit after Tax	191	232	281	391
Adj. PAT	191	232	281	391

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
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Trading Sell	:	Over 10% absolute decline in 1-month
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