

May 16, 2019

## Company Report

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>477</b>		<b>530</b>	
Sales (Rs. m)	14,220	18,360	14,220	18,360
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,164	2,779	2,449	3,146
% Chng.	(11.6)	(11.7)	-	-
EPS (Rs.)	37.8	47.7	44.1	56.0
% Chng.	(14.3)	(14.9)	-	-

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	11,442	12,017	14,220	18,360
EBITDA (Rs. m)	2,674	2,317	2,164	2,779
Margin (%)	23.4	19.3	15.2	15.1
PAT (Rs. m)	1,466	1,332	1,163	1,468
EPS (Rs.)	47.6	43.3	37.8	47.7
Gr. (%)	43.8	(9.1)	(12.7)	26.2
DPS (Rs.)	4.8	4.3	3.8	4.8
Yield (%)	1.9	1.7	1.5	1.9
RoE (%)	31.8	22.4	16.2	17.3
RoCE (%)	47.8	31.6	21.9	23.1
EV/Sales (x)	0.7	0.6	0.6	0.5
EV/EBITDA (x)	2.9	3.2	4.1	3.5
PE (x)	5.2	5.7	6.6	5.2
P/BV (x)	1.4	1.2	1.0	0.8

### Key Data

IGPT.BO | IGPL IN

52-W High / Low	Rs.662 / Rs.215
Sensex / Nifty	37,115 / 11,157
Market Cap	Rs.8bn / \$ 109m
Shares Outstanding	31m
3M Avg. Daily Value	Rs.13.5m

### Shareholding Pattern (%)

Promoter's	68.90
Foreign	1.08
Domestic Institution	4.61
Public & Others	25.41
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(19.5)	(43.3)	(61.6)
Relative	(14.9)	(45.9)	(63.4)

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## Softening raw material prices to aid profitability

### Quick Pointers:

- H2FY19 Phthalic Anhydride (PAN) - Orthoxylene (OX) spreads have compressed due to high price of Paraxylene (PX), a competing product of OX.
- Rise in PX price was due to strong polyester demand and limited capacity additions, globally. But high PX supplies of ~12MT over CY19-20E is likely to pull down utilization levels to 77% in CY20E vs ~88% in CY18.
- IGPL with PAN capacities coming on stream by the end of CY19 is well placed to capitalize on domestic opportunities. However, the near term consumption demand downturn remains a concern. Maintain BUY.

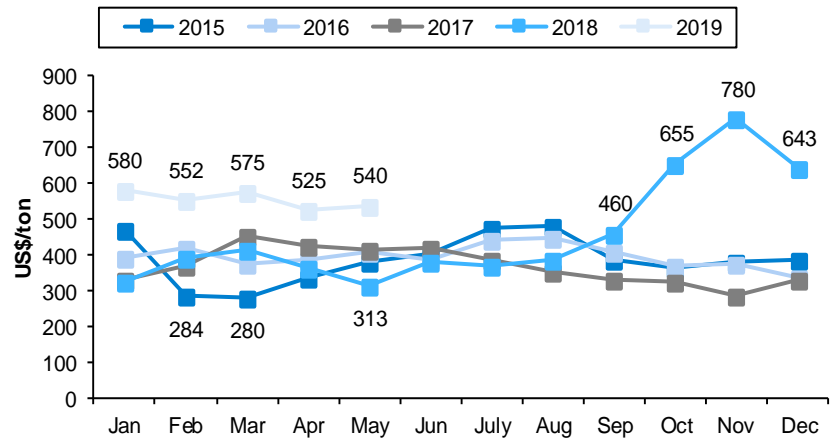
**IGPL stock has corrected sharply led by weakening PAN-OX spreads due to high raw material prices. High OX prices were due to soaring PX prices, a competing product given strong polyester demand and muted capacity addition. However, massive supplies of (over 12MTPA) PX in China by end of CY19 is likely to soothe the PX and OX prices, in our view. This will benefit IGPL where capacity addition is likely to come on stream. We cut our FY20/21E estimates by 14-15% as we trim our EBITDA margins to 15% vs 17% earlier due to weak consumption demand outlook in the near term. IGPL with 53,000MT capacities coming on stream by end of CY19 is set to be the third largest PAN player globally. Maintain BUY with a PT of Rs477 (Rs530 earlier) as we value IGPL at 6x EV/E or 10x PER FY21E. Maintain Buy**

**Contracting gross margins drags profitability:** IGPL stock has corrected sharply due to weakening (PAN - OX) spreads given high raw material prices. Raw material cost to sales as on Q3FY19 for IGPL (Q4 results awaited) and H2FY19 for Thirumalai chemicals (TMC IN; NOT RATED, 2<sup>nd</sup> largest player in PAN after IGPL) has increased to 77% and ~76% respectively. This is against H1FY19 RMC/sales average of 64% for IGPL and 59% for TMC IN. High raw material prices along with volatility in prices has led to IGPL's EBITDA margins fall to 10.6% in Q3FY19 vis-à-vis 23% for H1FY19 and 8.6% for H2FY19 for TMC.

**OX prices increased due to higher PX prices:** The raw material prices of IGPL's OX had increased due to high prices of PX. OX prices increased to an average of US\$940/MT for Q2/Q3FY19 vs FY18 levels of US\$740/MT while the PX prices increased to US\$1130/MT and US\$850/MT respectively for the same period. High PX prices were due to strong downstream polyester demand of ~2.5-3MT p.a for CY17/18 and muted capacity addition. Polyester demand also surged due to China's import ban of recycled PET bottles (used for production of polyester staple fibers) which increased demand of virgin polyester from Jan 2018.

**PX supplies to surge by CY19 end:** The PX dynamics is set to change significantly, led by new supplies of ~12MTPA over CY19-20E (Source: ICIS). Such supply addition is likely to pull down global PX utilization levels to ~77% in CY20E, against ~88% in CY18. This is likely to calm the PX prices which could soothe the prices of OX, in our view.

**Exhibit 1: PX-Naphtha spreads jumped in H2FY19**



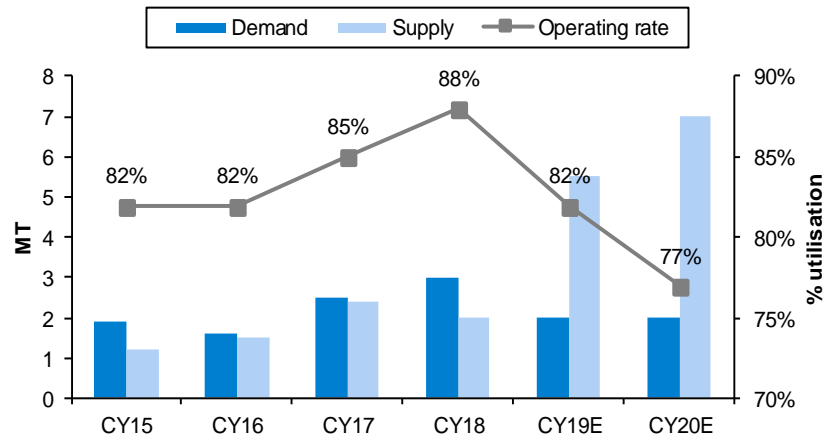
Source: Bloomberg, PL

**Exhibit 2: Nearly 12MT of PX capacity is likely over CY19/20E**

Company	Country	Location	Capacity (MT)	Expected startup
Hengli Petrochemical	China	Dalian	4.5	Q3CY19
Saudi Aramco	Saudi Arabia	Jizan	0.8	Q4CY19
Sinopec Hainan No 2	China	Hainan	1.0	Sep/Oct '19
Zhejiang Petrochemical (Zhoushan)	China	Zhoushan	4.0	Q3 '19
Hengyi Brunei	Brunei	Pulau Muara Besar	1.5	CY20

Source: Industry, PL

**Exhibit 3: Global PX utilization levels to fall to ~78% in CY20E**



Source: Industry

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>11,442</b>	<b>12,017</b>	<b>14,220</b>	<b>18,360</b>
YoY gr. (%)	10.3	5.0	18.3	29.1
Cost of Goods Sold	7,275	8,032	9,031	11,676
Gross Profit	4,167	3,984	5,189	6,684
Margin (%)	36.4	33.2	36.5	36.4
Employee Cost	558	586	693	895
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,674</b>	<b>2,317</b>	<b>2,164</b>	<b>2,779</b>
YoY gr. (%)	58.9	(13.3)	(6.6)	28.4
Margin (%)	23.4	19.3	15.2	15.1
Depreciation and Amortization	257	268	360	459
<b>EBIT</b>	<b>2,417</b>	<b>2,050</b>	<b>1,804</b>	<b>2,319</b>
Margin (%)	21.1	17.1	12.7	12.6
Net Interest	149	103	90	125
Other Income	40	42	23	(3)
<b>Profit Before Tax</b>	<b>2,309</b>	<b>1,989</b>	<b>1,736</b>	<b>2,191</b>
Margin (%)	20.2	16.6	12.2	11.9
Total Tax	843	656	573	723
Effective tax rate (%)	36.5	33.0	33.0	33.0
<b>Profit after tax</b>	<b>1,466</b>	<b>1,332</b>	<b>1,163</b>	<b>1,468</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,466</b>	<b>1,332</b>	<b>1,163</b>	<b>1,468</b>
YoY gr. (%)	43.8	(9.1)	(12.7)	26.2
Margin (%)	12.8	11.1	8.2	8.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,466</b>	<b>1,332</b>	<b>1,163</b>	<b>1,468</b>
YoY gr. (%)	43.8	(9.1)	(12.7)	26.2
Margin (%)	12.8	11.1	8.2	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,466	1,332	1,163	1,468
<b>Equity Shares O/s (m)</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>
<b>EPS (Rs)</b>	<b>47.6</b>	<b>43.3</b>	<b>37.8</b>	<b>47.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>8,419</b>	<b>9,419</b>	<b>12,419</b>	<b>15,419</b>
Tangibles	8,419	9,419	12,419	15,419
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>4,411</b>	<b>4,679</b>	<b>5,039</b>	<b>5,498</b>
Tangibles	4,411	4,679	5,039	5,498
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,008</b>	<b>4,740</b>	<b>7,380</b>	<b>9,921</b>
Tangibles	4,008	4,740	7,380	9,921
Intangibles	-	-	-	-
Capital Work In Progress	257	1,000	1,000	1,001
Goodwill	27	-	-	-
Non-Current Investments	502	502	502	502
Net Deferred tax assets	(371)	(868)	(1,302)	(1,850)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	944	1,119	1,324	1,709
Trade receivables	1,388	1,734	2,053	2,650
Cash & Bank Balance	212	992	143	(269)
Other Current Assets	179	206	237	273
<b>Total Assets</b>	<b>7,522</b>	<b>10,301</b>	<b>12,646</b>	<b>15,795</b>
<b>Equity</b>				
Equity Share Capital	308	308	308	308
Other Equity	4,973	6,305	7,469	8,937
<b>Total Networkth</b>	<b>5,281</b>	<b>6,613</b>	<b>7,777</b>	<b>9,245</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	292	792	1,292	1,792
Provisions	-	-	-	-
Other non current liabilities	28	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	1,498	1,870	2,103	2,719
Other current liabilities	142	156	171	188
<b>Total Equity &amp; Liabilities</b>	<b>7,612</b>	<b>10,301</b>	<b>12,646</b>	<b>15,795</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	2,309	1,989	1,736	2,191
Add. Depreciation	257	268	360	459
Add. Interest	-	-	-	-
Less Financial Other Income	40	42	23	(3)
Add. Other	109	61	68	128
Op. profit before WC changes	2,674	2,317	2,164	2,779
Net Changes-WC	(28)	(156)	(296)	(370)
Direct tax	(843)	(656)	(573)	(723)
<b>Net cash from Op. activities</b>	<b>1,803</b>	<b>1,504</b>	<b>1,296</b>	<b>1,686</b>
Capital expenditures	(1,181)	(1,716)	(3,000)	(3,001)
Interest / Dividend Income	-	-	-	-
Others	40	42	23	(3)
<b>Net Cash from Inv. activities</b>	<b>(1,141)</b>	<b>(1,674)</b>	<b>(2,977)</b>	<b>(3,004)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(332)	500	500	500
Dividend paid	(147)	(133)	(116)	(147)
Interest paid	(149)	(103)	(90)	(125)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(627)</b>	<b>264</b>	<b>293</b>	<b>228</b>
<b>Net change in cash</b>	<b>35</b>	<b>94</b>	<b>(1,388)</b>	<b>(1,090)</b>
Free Cash Flow	622	(212)	(1,704)	(1,315)

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19E
<b>Net Revenue</b>	<b>3,509</b>	<b>3,242</b>	<b>3,154</b>	<b>3,160</b>
YoY gr. (%)	18.6	34.6	7.1	1.0
Raw Material Expenses	2,262	2,067	2,415	2,304
Gross Profit	1,247	1,175	740	856
Margin (%)	35.5	36.2	23.4	27.1
<b>EBITDA</b>	<b>847</b>	<b>713</b>	<b>335</b>	<b>416</b>
YoY gr. (%)	32.9	-	-	-
Margin (%)	24.1	22.0	10.6	13.2
Depreciation / Depletion	63	65	68	70
<b>EBIT</b>	<b>784</b>	<b>648</b>	<b>267</b>	<b>346</b>
Margin (%)	22.3	20.0	8.5	10.9
Net Interest	25	48	17	20
Other Income	14	16	24	19
<b>Profit before Tax</b>	<b>679</b>	<b>616</b>	<b>274</b>	<b>345</b>
Margin (%)	19.3	19.0	8.7	10.9
Total Tax	276	211	99	117
Effective tax rate (%)	40.7	34.2	35.9	34.0
<b>Profit after Tax</b>	<b>402</b>	<b>405</b>	<b>176</b>	<b>228</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>402</b>	<b>405</b>	<b>176</b>	<b>228</b>
YoY gr. (%)	2.8	20.3	(56.5)	(31.9)
Margin (%)	11.5	12.5	5.6	7.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>402</b>	<b>405</b>	<b>176</b>	<b>228</b>
YoY gr. (%)	2.8	20.3	(56.5)	(31.9)
Margin (%)	11.5	12.5	5.6	7.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>402</b>	<b>405</b>	<b>176</b>	<b>228</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	47.6	43.3	37.8	47.7
CEPS	55.9	52.0	49.5	62.6
BVPS	171.5	214.7	252.5	300.2
FCF	20.2	(6.9)	(55.3)	(42.7)
DPS	4.8	4.3	3.8	4.8
<b>Return Ratio(%)</b>				
RoCE	47.8	31.6	21.9	23.1
ROIC	33.1	22.0	14.4	14.4
RoE	31.8	22.4	16.2	17.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.0	0.1	0.2
Net Working Capital (Days)	27	30	33	33
<b>Valuation(x)</b>				
PER	5.2	5.7	6.6	5.2
P/B	1.4	1.2	1.0	0.8
P/CEPS	4.4	4.8	5.0	4.0
EV/EBITDA	2.9	3.2	4.1	3.5
EV/Sales	0.7	0.6	0.6	0.5
Dividend Yield (%)	1.9	1.7	1.5	1.9

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-May-18	BUY	810	594
2	10-Jul-18	BUY	810	489
3	1-Aug-18	BUY	810	451
4	5-Oct-18	BUY	810	388
5	14-Nov-18	BUY	810	438
6	7-Jan-19	BUY	700	398
7	11-Feb-19	BUY	530	248
8	16-Apr-19	BUY	530	311

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	499	358
2	GAIL (India)	BUY	482	349
3	Hindustan Petroleum Corporation	BUY	326	264
4	I.G. Petrochemicals	BUY	530	311
5	Indian Oil Corporation	Accumulate	207	158
6	Indraprastha Gas	BUY	530	305
7	Mahanagar Gas	BUY	1,179	889
8	NOCIL	BUY	221	117
9	Oil & Natural Gas Corporation	BUY	223	157
10	Oil India	Accumulate	236	180
11	Petronet LNG	BUY	306	239
12	Reliance Industries	Accumulate	1,406	1,386

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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