

November 21, 2018

## IG Petrochemicals Ltd.

*Lower volumes, margin's; long term growth prospects intact*

### Revenue reported were in-line with estimates

The company's topline grew by an impressive 34.6% y-o-y to INR 324.2 crore in Q2FY19 was largely in-line owing to increase in PAN prices. During Q2FY19, production of PAN volume has witnessed 10% decline on a q-o-q basis to 36,000 tonnes. The decline in production volume was due to shutdown in one unit for 23 days to change catalyst. Current prices of PAN are hovering around INR 80-82 per kg.

### Sudden rise in crude prices led to decline in margins of the company

In Q2FY19, margins were impacted by 330bps y-o-y & 210bps q-o-q and stood at 22.0%. The company's majority of raw materials like ortho-xylene are crude derived and increase in crude prices increases the inherent pricing of raw materials, thereby impacting the margins. However, increase in raw material pricing is passed on to the end customer with a quarter lag, hence we expect improvement in margins in Q3FY19 considering crude prices remains in the range of \$65-75 per barrel.

### Expansion of PAN capacity to boost sales growth going ahead

With strong demand of Phthalic Anhydride(PAN) growing at 6-7% annually in the domestic market, the company plans to increase its capacity by 53,000 MTPA via brownfield expansion to 2,28,110 MTPA from the current 1,75,110 MTPA. We believe at optimum utilization levels, the company will generate incremental revenue of INR 450-500 crore. This expansion will provide strong visibility to the company in the domestic Phthalic Anhydride(PAN) market.

We expect the PAN demand to grow in the range of 6-7% coupled with strong demand from the key end user industries like Plasticizers or PVC which is growing at 7-8% annually.

### Valuations

We expect the company to notch re-rating in its valuations on the back of:

(i) Expansion of PAN facility by 53,000 MTPA coupled with strong demand will lead to strong volume offtake. (ii) Forward integration into Maleic Anhydride & plasticizers to improve the margins going ahead. (iii) Strong demand from key end user industries to sustain growth momentum. (iv) Lowest cost producer owing to proximity to JNPT port and in house captive power plant.

At the CMP of INR 417, the stock trades at 3x FY20E EBITDA. We value using average of DCF & EV/EBITDA, thereby, maintaining our target price of INR 646 representing a potential upside of 55.0% from current valuations.

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	953	1037	1144	1324	1809
<b>Growth%</b>		<b>8.8%</b>	<b>10.3%</b>	<b>15.7%</b>	<b>36.6%</b>
EBITDA	113	168	267	326	491
<b>Growth%</b>		<b>48.7%</b>	<b>58.9%</b>	<b>22.1%</b>	<b>50.6%</b>
PAT	60	102	146	172	265
<b>Growth%</b>		<b>70.0%</b>	<b>43.1%</b>	<b>17.8%</b>	<b>54.1%</b>
EPS (INR)	19.5	33	47.4	55.8	85.9
P/E (x)	5.2	10.8	13.5	7.5	4.9
P/B (x)	1.1	2.8	3.7	1.9	1.4
EV/EBITDA(x)	3.7	6.8	7.6	4.3	3.0

Source: Company, NSPL Research

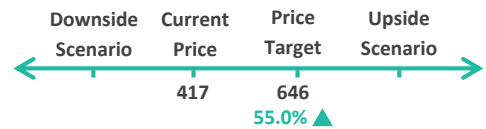
\* Read last page for disclaimer & rating rationale

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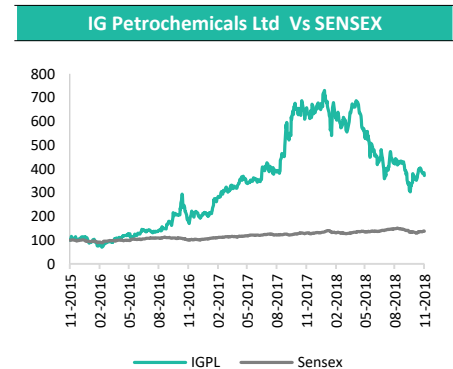
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## STRONG BUY\*



Market Data			
Industry	Speciality chemicals		
Sensex	38897		
Nifty	11737		
Bloomberg Code	IGPL:IN		
Eq. Cap. (INR Crores)	30.8		
Face Value (INR)	10		
52-w H/L	836/391		
Market Cap (INR Crores)	1478.3		
Valuation Data			
	FY18	FY19E	FY20E
P/E (x)	13.5	7.5	4.9
P/B (x)	3.7	1.9	1.4
EV/EBITDA (x)	7.6	4.3	3.0



Shareholding Pattern (in %)			
	Sept'18	Jun'18	Sept'17
Promoters	68.90	72.22	72.22
FIIIs	1.11	1.79	1.06
DIIIs	3.53	0.37	0.27
Retail	26.46	25.62	26.45
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



## Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
<b>Revenue (Net of excise duty)</b>	<b>324.2</b>	<b>240.9</b>	<b>350.9</b>	<b>34.6%</b>	<b>-7.6%</b>
COGS	206.7	142.5	226.2	45.1%	-8.6%
Employee Expenses	16.5	12.3	16.4	34.0%	0.3%
Other Expenses	29.8	25.2	23.6	18.4%	26.2%
<b>Total Expenses</b>	<b>253.0</b>	<b>179.9</b>	<b>266.3</b>	<b>40.6%</b>	<b>-5.0%</b>
<b>EBITDA</b>	<b>71.3</b>	<b>61.0</b>	<b>84.7</b>	<b>16.9%</b>	<b>-15.8%</b>
Depreciation	6.5	6.5	6.3	-0.5%	3.1%
Other Income	1.6	0.6	1.4	163.7%	12.0%
<b>EBIT</b>	<b>66.4</b>	<b>55.1</b>	<b>79.8</b>	<b>20.5%</b>	<b>-16.8%</b>
Finance Cost	4.8	3.5	2.5	38.1%	94.7%
<b>PBT (before exceptional item)</b>	<b>61.6</b>	<b>51.6</b>	<b>77.4</b>	<b>19.3%</b>	<b>-20.4%</b>
Share of associates	0.0	0.0	0.0	-	-
Exceptional items	0.0	0.0	9.5	-	-
<b>PBT (after exceptional item)</b>	<b>61.6</b>	<b>51.6</b>	<b>67.9</b>	<b>19.3%</b>	<b>-9.3%</b>
Taxes	21.1	18.0	27.6	17.3%	-23.7%
<b>Net Profit</b>	<b>40.5</b>	<b>33.6</b>	<b>40.2</b>	<b>20.4%</b>	<b>0.6%</b>
<b>EPS in INR</b>	<b>13.1</b>	<b>10.9</b>	<b>13.1</b>	<b>20.4%</b>	<b>0.6%</b>

Source: Company, NSPL Research

- The company's net sales grew 34.6% y-o-y and de-grew by 7.6% q-o-q to INR 324.2 crore in Q2FY19.
- EBITDA grew by 16.9% y-o-y and de-grew by 15.8% q-o-q to INR 71.3 crore in Q2FY19. EBITDA Margins stood at 22.0% in Q2FY19 as against 25.3% in Q2FY18 and 24.1% in Q1FY19. Margins remained under pressure owing to sudden rise in the cost of raw materials like ortho-xylene.
- Employee expense grew by 34.0% y-o-y and 0.3% q-o-q to INR 16.5 crore.
- PBT after exceptional items grew by 19.3% y-o-y & de-grew by 9.3% q-o-q to INR 61.6 crore in Q2FY19. The company reported exceptional items of INR 9.5 crore in Q1FY19 and this was on the back of impairment accounted in one of the subsidiary.
- Reported PAT grew by 20.4% y-o-y and 0.6% q-o-q to INR 40.5 million in Q2FY19. PAT margins stood at 19.6% in Q2FY19 as compared to 23.6% in Q2FY18 and 17.8% in Q1FY19.
- During Q2FY19, production of PAN volume has witnessed 10% decline on a q-o-q basis to 36,000 in Q2FY19.
- The decline in production volume was due to shutdown in one unit for 23 days to change catalyst.
- Current prices of PAN are hovering around INR 80-82 per kg.
- The overall capex outlay for the next 2 years is approx. INR 400 crore excluding the maintenance capex.
- In Q2FY19, margins were impacted by 330bps y-o-y & 210bps q-o-q and stood at 22.0%. The company's majority of raw materials like ortho-xylene are crude derived and increase in crude prices increases the inherent pricing of raw materials, thereby impacting the margins.
- However, increase in raw material pricing is passed on to the end with a quarter lag, hence we expect improvement in margins in Q3FY19 considering crude prices remains in the range of \$65-75 per barrel.
- The capex of INR 400 crore is divided into:**
  - INR 300 crore for PAN capacity expansion
  - INR 100 crore for plasticizers.
- The company plans to expand the capacity of PAN from 1,75,110 MTPA in FY18 to 2,28,110 MTPA by FY21E to improve its visibility in the domestic markets and to grab majority of domestic PAN market.

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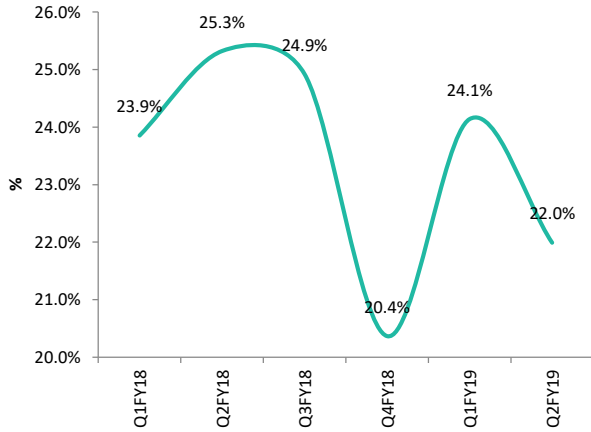
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## NALANDA SECURITIES PRIVATE LIMITED

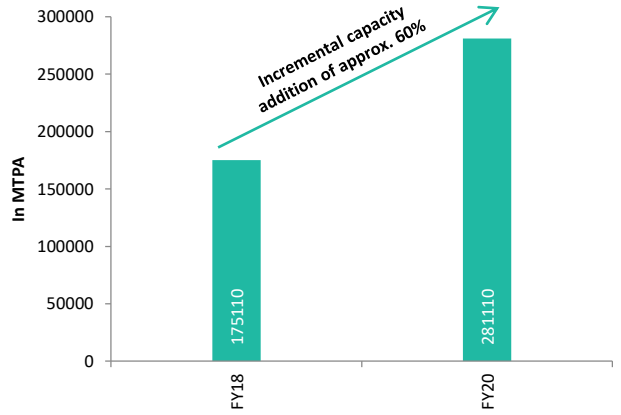
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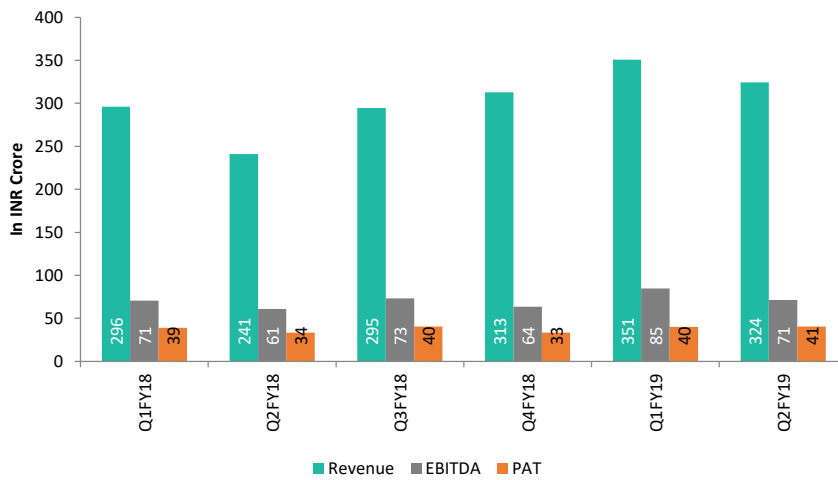
Margins witnessed pressure sequentially owing to high crude prices



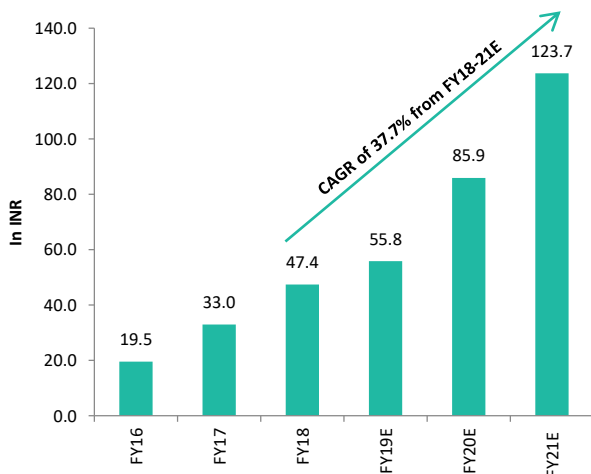
PAN capacity addition will be the growth driver going ahead



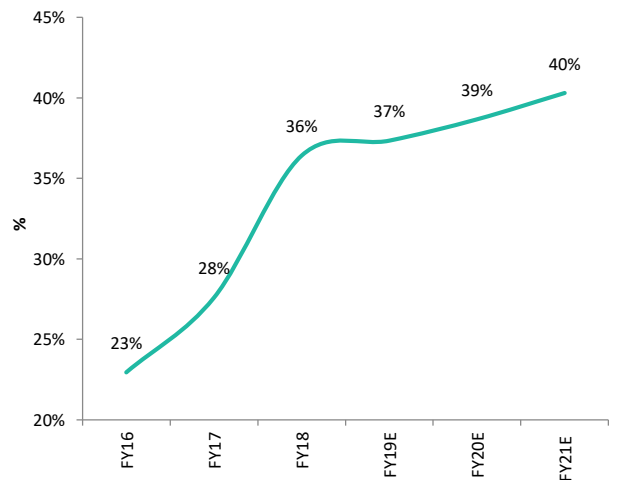
Financials indicate flat performance over the past few quarters



EPS growth to remain robust going ahead



Gross margins to improve going ahead



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	953	1037	1144	1324	1809	2228
COGS	734	751	728	830	1109	1330
Employee Expenses	30	39	56	61	68	78
Other Expenses	76	79	94	107	141	168
<b>EBITDA</b>	<b>113</b>	<b>168</b>	<b>267</b>	<b>326</b>	<b>491</b>	<b>652</b>
D&A	18	21	26	36	43	47
Other income	4	3	4	2	2	3
<b>EBIT</b>	<b>99</b>	<b>150</b>	<b>245</b>	<b>292</b>	<b>450</b>	<b>607</b>
Interest Expense	23	18	15	29	48	30
<b>PBT</b>	<b>77</b>	<b>132</b>	<b>230</b>	<b>263</b>	<b>402</b>	<b>577</b>
Tax	16	30	84	92	138	196
<b>PAT</b>	<b>60</b>	<b>102</b>	<b>146</b>	<b>172</b>	<b>265</b>	<b>381</b>
<b>EPS in INR</b>	<b>19.5</b>	<b>33.0</b>	<b>47.4</b>	<b>55.8</b>	<b>85.9</b>	<b>123.7</b>

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	31	31	31	31	31	31
Reserves & Surplus	267	361	497	650	890	1242
<b>Shareholder's Funds</b>	<b>298</b>	<b>392</b>	<b>528</b>	<b>681</b>	<b>921</b>	<b>1273</b>
Long term borrowings	92	60	29	103	197	130
Other financial liabilities	0	0	38	38	38	38
Provisions	2	2	3	3	3	4
Deferred tax liabilities(Net)	0	2	37	48	59	61
<b>Total Non-current liabilities</b>	<b>94</b>	<b>64</b>	<b>107</b>	<b>192</b>	<b>296</b>	<b>233</b>
Short term borrowings	0	2	33	43	53	33
Trade payables	153	171	150	214	333	395
Other financial liabilities	25	21	29	26	32	15
Other current liabilities	6	8	13	5	5	5
Short-term provisions	0	1	1	1	1	1
<b>Total Current liabilities</b>	<b>184</b>	<b>203</b>	<b>225</b>	<b>289</b>	<b>423</b>	<b>449</b>
<b>Total Equity and Liabilities</b>	<b>577</b>	<b>658</b>	<b>860</b>	<b>1161</b>	<b>1641</b>	<b>1955</b>

<b>Fixed Assets</b>	<b>327</b>	<b>324</b>	<b>401</b>	<b>580</b>	<b>752</b>	<b>770</b>
Capital work in progress	4	11	89	105	105	105
Goodwill	0	0	2	2	2	2
Other intangible assets	0	0	0	0	0	0
Intangible assets under develop	0	0	1	1	1	1
Investment in a joint venture	0	9	9	9	9	9
Non current Investments	0	8	10	12	14	16
Other financial assets	8	2	3	4	5	6
Non current tax assets	0	1	7	8	10	13
Other non current assets	14	13	24	28	38	46
<b>Total Non-current Assets</b>	<b>353</b>	<b>368</b>	<b>545</b>	<b>748</b>	<b>935</b>	<b>967</b>
Inventories	83	97	94	110	194	243
Current Investments	0	0	41	41	41	41
Trade receivables	109	150	139	188	357	436
Cash and cash equivalents	17	30	22	52	89	240
Short term loans & advances	0	0	1	1	1	1
Other financial assets	5	2	0	0	1	1
Other current assets	9	11	19	21	23	26
<b>Total Current Assets</b>	<b>223</b>	<b>290</b>	<b>315</b>	<b>413</b>	<b>705</b>	<b>987</b>
<b>Total Assets</b>	<b>577</b>	<b>658</b>	<b>860</b>	<b>1161</b>	<b>1641</b>	<b>1955</b>

Source: Company, NSPL Research

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Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	77	132	230	263	402	577
Operating profit before working capital changes	109	158	268	328	493	654
Operating profit after working capital changes	86	123	255	319	360	560
Less income tax paid	-17	-29	-54	-92	-138	-196
<b>Cash Flow from Operating</b>	<b>69</b>	<b>94</b>	<b>201</b>	<b>228</b>	<b>222</b>	<b>364</b>
(Incr)/ Decr in Gross PP&E	-9	-32	-124	-215	-215	-65
Purchase of Investments	0	-17	-42	-2	-2	-2
<b>Cash Flow from Investing</b>	<b>-6</b>	<b>-42</b>	<b>-164</b>	<b>-217</b>	<b>-217</b>	<b>-67</b>
(Decr)/Incr in Debt	-22	-32	-12	84	103	-87
Finance costs	-16	-11	-12	-29	-48	-30
Dividend Paid	-4	-7	-11	-19	-24	-30
<b>Cash Flow from Financing</b>	<b>-64</b>	<b>-50</b>	<b>-35</b>	<b>37</b>	<b>32</b>	<b>-146</b>
<b>Incr/(Decr) in Balance Sheet Cash</b>	<b>-1</b>	<b>2</b>	<b>2</b>	<b>47</b>	<b>37</b>	<b>151</b>
Cash at the Start of the Year	18	1	3	5	52	89
<b>Cash at the End of the Year</b>	<b>17</b>	<b>3</b>	<b>5</b>	<b>52</b>	<b>89</b>	<b>240</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability</b>						
Return on Capital (%)	25%	33%	42%	35%	38%	42%
Return on Equity (%)	20%	26%	28%	25%	29%	30%
<b>Margin Trend</b>						
EBITDA Margin (%)	11.9%	16.2%	23.4%	24.6%	27.1%	29.2%
PBT Margin (%)	8.0%	12.7%	20.1%	19.9%	22.2%	25.9%
Net profit Margin (%)	6.3%	9.8%	12.8%	13.0%	14.6%	17.1%
Gross Margin (%)	23.0%	27.6%	36.4%	37.3%	38.7%	40.3%
<b>Solvency</b>						
Debt / Equity	0.4	0.2	0.2	0.2	0.3	0.1
Debt / Assets	0.2	0.1	0.1	0.1	0.2	0.1
Interest Coverage	4.4	8.2	16.4	10.1	9.5	20.4
<b>Valuation Ratios</b>						
P/E	5.2	10.8	13.5	7.5	4.9	3.4
P/B	1.1	2.8	3.7	1.9	1.4	1.0
EV/EBITDA	3.7	6.8	7.6	4.3	3.0	1.9

Source: Company, NSPL Research

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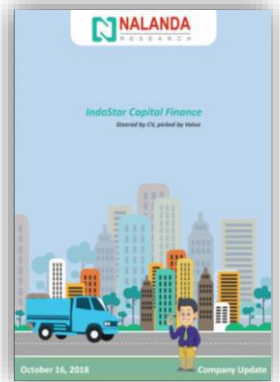
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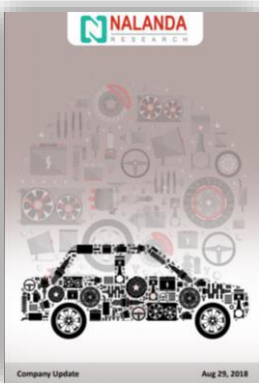
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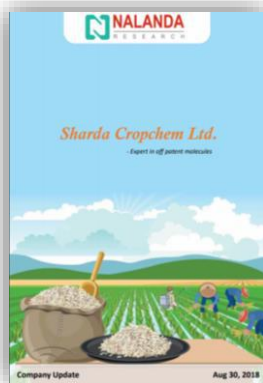
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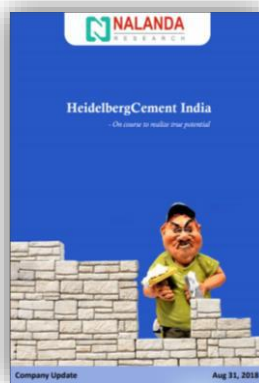
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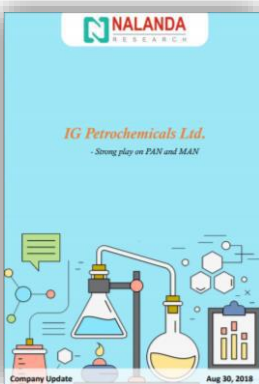
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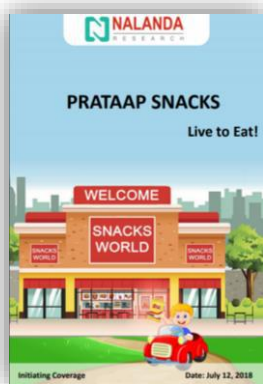
**Heidelberg Cements**



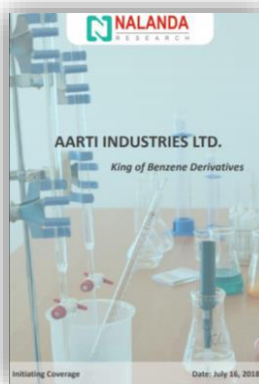
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**Prataap Snacks**



**Aarti Industries**



**Shriram Transport**



IG Petrochemicals Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 21, 2018	417	646	Strong Buy	Buy	5% - 15%
August 30, 2018 (Company Update)	480	647	Strong Buy	Hold	0 – 5%
August 01, 2018 (Q1FY19-Result Update)	450	649	Strong Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
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