



# I G Petrochemicals Ltd.

## Capacity addition to lead future growth, Import substitution in play

Q4FY20 Revenue of I G Petrochemicals Ltd (IGPL) de-grew by 14.2% YoY to Rs2685mn. This de-growth was due to decline in both volume and realization. Plant shutdown due to global pandemic impacted the volume. EBITDA margin witnessed a steep contraction of 570bps YoY to 6.0%. This was largely owing to increase in commodity prices that resulted in an increase in RM cost by about 375bps YoY to 79.9% of sales. Other expenses stood at 8.1% of sales, up ~60 bps YoY. The company reported one-offs of Rs55-60mn owing to inventory losses and COVID related provisions. Adjusting for one-offs, EBITDA margin stood at 8.0%. Overall, EBITDA reported a decline of 56.2% YoY to Rs160mn, owing to lower gross margins and operating deleverage. PAT reported decline of 78.1% YoY to Rs40mn with PAT margin of 1.5% which witnessed a contraction of 430bps.

### Capacity expansion to lead healthy volume growth

- Considering growing demand of PAN and its limited headroom for volume growth, the company is in the final stage of commissioning of new capacity of 53,000 TPA, thereby, taking total capacity to 2,21,100 TPA.
- The new capacity of 53,000 TPA was to start commercial production by Q1FY21, but with the COVID-19 breakout, the capacity commercialization is now shifted to Q2FY21. Also, the plasticizers plant is set to come on stream by Q4FY21.
- We estimate the new capacity to ramp up to 50-55% operating levels in FY21E. Although, management indicated that ramp up could be faster than expected, we remain a bit conservative considering overall demand environment and uncertainty on import front.
- We estimate volume growth for FY21E & FY22E would be around 2% and 16% respectively.

### Spread improvement a very healthy sign, sustainability is the key

- The spread between the ortho-xylene and PAN is currently hovering at \$150-160/ton which was around \$100-110/ton in December 2019, implying a growth of 36% on QoQ basis.
- Management is quite confident that the spreads will sustain at current levels considering the demand uptick the industry has witnessed post lifting of lockdown.
- Also, we believe that spreads have bottomed out and the worst has already been hit when the rock bottom spread of \$60-80/ton was witnessed during 3QFY20.

### Valuation

- Currently, the stock is trading at FY22E P/E of 7.5x. We value the stock on a forward P/E multiple of 10x and arrive at target price of Rs 199 per share which offers 34% upside from current valuations.
- Therefore, we assign **BUY** rating on the stock. Risk to our call is unforeseen impact on the demand which could impact earnings, further lockdowns and volatility in crude oil prices.

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY(%)
Net sales	2,685	3,131	-14.2%	2,756	-2.6%	10,586	13,037	-18.8%
Operating costs	2,525	2,766	-8.7%	2,584	-2.3%	9,868	10,778	-8.4%
EBITDA	160	365	-56.2%	172	-6.7%	718	2,259	-68.2%
EBITDA Margin (%)	6.0%	11.7%	(570)bps	6.2%	(27)bps	6.8%	17.3%	(1054)bps
Depreciation	74	69	7.4%	73	1.8%	299	265	13.0%
Interest	42	24	70.0%	41	1.5%	160	121	31.5%
Other income	19	22	-13.7%	10	81.7%	62	77	-18.8%
Exceptional	-3	0	NA	0	NA	-3	-83	NA
PBT	60	293	-79.5%	68	-11.6%	319	1867	-82.9%
Provision for tax	20	112	-81.8%	23	-11.6%	110	698	-84.2%
Reported PAT	40	181	-78.1%	45	-11.6%	209	1168	-82.1%

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY18	11,442	10%	2,673	23.4%	1,460	44%	47.4	27.7	26.4	12.3	6.7
FY19	13,037	14%	2,259	17.3%	1,168	-20%	37.9	18.6	16.5	12.3	6.6
FY20	10,586	-19%	718	6.8%	209	-82%	6.8	3.3	3.9	28.2	9.9
FY21E	9,562	-10%	784	8.2%	197	-6%	6.4	3.1	3.7	23.2	5.6
FY22E	12,632	32%	1,416	11.2%	611	211%	19.9	8.8	8.1	7.5	2.9

Source: Company, EISEC Research Estimates

East India Securities Ltd  
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Rating: **BUY** Upside/(Downside): **34%**  
Current Price: **Rs 148** Target Price: **Rs 199**

### | Market data

Bloomberg:	IGPL IN
52-week H/L (Rs):	283 / 81
Mcap (Rs bn/USD mn):	4.6/ 60
Shares outstanding (mn):	30.8
Free float:	25.4%
Avg. daily vol. 3mth (3M Avg – in '000):	16
Face Value (Rs):	10
Group:	S&P BSE 500

Source: Bloomberg, EISEC Research

### | Shareholding pattern (%)

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	68.7	68.7	68.7	68.9
FIIs	0.3	0.3	0.6	1.0
DIIIs	5.6	5.7	5.2	5.2
Public/others	25.4	25.2	25.5	24.9

Source: BSE

### | Price performance (%)\*

	1M	3M	12M	36M
S&P BSE 500	14.4	26.4	-11.6	2.9
IGPL	17.1	65.8	-42.5	-63.5

\*as on 26<sup>th</sup> June 2020; Source: AceEquity, EISEC Research

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## Analyst call highlights:

- **Demand outlook:** Management has stated that demand of Phthalic Anhydride has witnessed gradual recovery post lifting of lockdown. The demand of PAN pre-lockdown was 4-4.2 lakh tonnes and post lifting of lockdown demand has currently reached 80-90% of pre lockdown levels. Management expects by June or July 2020, demand to reach nearly 100% of pre-lockdown levels.
- **Production volumes:** Production volume in FY20 declined by 2-3% as compared to FY19. The company had cumulatively taken shutdown of 28 days because of lockdown.
- **Capacity expansion of PAN and plasticizers:** The capacity expansion of Phthalic Anhydride 53,000 TPA is scheduled to commission by Q2FY21E and the plasticizer capacity of 8,400 TPA is scheduled to commission by Q4FY21E. Post capacity expansion, improvement in volumes will help the company to substitute PAN import from foreign countries like South Korea, Japan & Taiwan.
- **Exports witnessed strong growth in FY20:** The company reported exports growth of 26% in FY20. This was primarily owing to good demand from geographies like Middle East and African market. Also, for PAN exports, the government of India gives 3.5% as export incentives.
- **Sharp improvement in spreads witnessed:** Pre-lockdown, the spread was hovering around \$100-110/ton and currently hovering at \$150-160/ton. As there was no supply during the lockdown phase, the spreads spiked to levels of \$180-200/ton and subsequently cooled to current levels of \$150-160/ton. Management believes the current spreads levels are sustainable.
- **Anti-Dumping Duty (ADD):** Management stated that government of India is investigating into the ADD case and probably there are high chances that ADD will be imposed. The duty would be around 7.5% particularly from imports against South Korea. Before imposition of ADD, a Countervailing Duty (CVD) will be imposed for 200 days and thereafter ADD will be imposed.
- **Capex plans:** Management has stated the capex of PAN and plasticizers would be Rs3.4bn. The capex is funded by a mix of debt and internal accruals.
- **Inventory loss & other one-offs:** For the full year FY20, the company incurred one-offs in the range of Rs80-100mn. One-offs majorly include shutdown, MTM losses and inventory loss.
- **Taxation:** Management said the company will continue to avail benefits of MAT credits available. Post complete utilization of MAT, the company will come in the new tax regime of flat 25.1% tax rate.

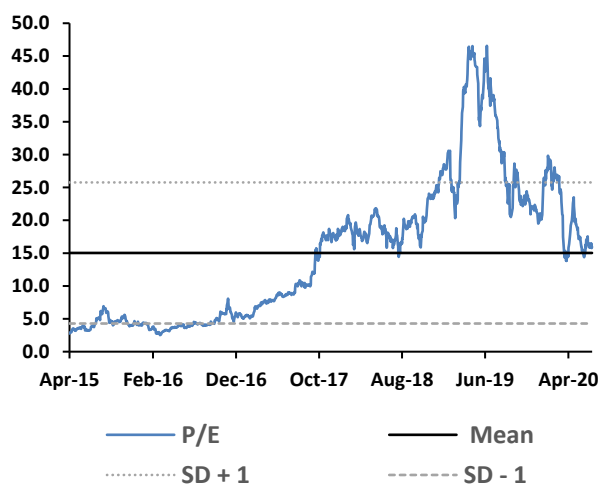
## Valuation and Recommendations

The stock is trading at FY22E P/E of 7.5x and FY22E EV/EBITDA of 2.9x.

We value the stock on forward P/E multiple of 10x and arrive at target price of 199 per share which offers 34% upside from current valuations. We assign **BUY** rating on the stock.

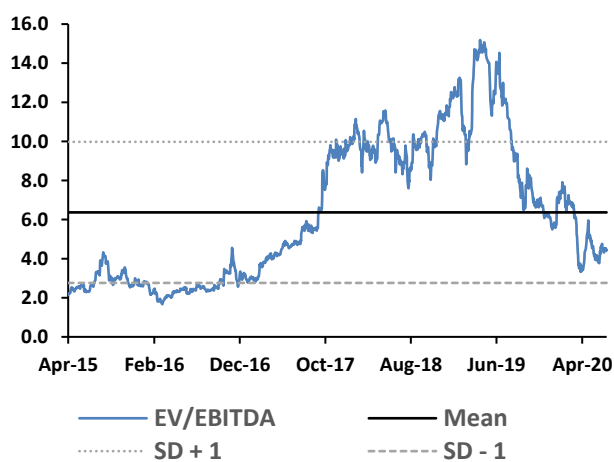
Risk to our call is unforeseen impact on the demand which could impact earnings, increasing the lockdown and substantial volatility in crude oil prices.

Fig 1: 1-year forward P/E chart



Source: AceEquity, EISEC Research

Fig 2: 1-year forward EV/EBITDA chart



Source: AceEquity, EISEC Research

## Quarterly financials, operating metrics and key performance indicators

**Fig 3: Consolidated Quarterly Financials**

Y/E March (Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Sales</b>	<b>3509</b>	<b>3242</b>	<b>3154</b>	<b>3131</b>	<b>2479</b>	<b>2666</b>	<b>2756</b>	<b>2685</b>
Raw Materials	2262	2067	2415	2384	1783	2069	2174	2145
Employee Costs	164	165	144	146	144	141	154	162
Other Expenditure	237	298	261	236	308	312	256	218
<b>EBITDA</b>	<b>846</b>	<b>713</b>	<b>335</b>	<b>365</b>	<b>243</b>	<b>143</b>	<b>172</b>	<b>160</b>
Depreciation	63	65	68	69	79	73	73	74
Interest	32	48	17	24	44	33	41	42
Other Income	14	17	24	22	20	13	10	19
<b>PBT</b>	<b>766</b>	<b>617</b>	<b>274</b>	<b>293</b>	<b>141</b>	<b>50</b>	<b>68</b>	<b>63</b>
Tax	276	211	99	112	50	17	23	20
Tax rate (%)	36	34	36	38	36	33	34	33
<b>Reported PAT</b>	<b>489</b>	<b>406</b>	<b>176</b>	<b>181</b>	<b>91</b>	<b>34</b>	<b>45</b>	<b>42</b>
MI/Share of JV	-83	0	0	0	0	0	0	-3
<b>Adjusted PAT</b>	<b>406</b>	<b>406</b>	<b>176</b>	<b>181</b>	<b>91</b>	<b>34</b>	<b>45</b>	<b>40</b>
<b>Y-o-Y Growth (%)</b>								
Revenue	8.8	34.6	7.1	0.1	-29.4	-17.8	-12.6	-14.2
EBITDA	20.2	16.8	-53.7	-42.7	-71.3	-79.9	-48.8	-56.2
PAT	3.9	20.8	-56.6	-45.9	-77.7	-91.7	-74.5	-78.1
<b>Q-o-Q Growth (%)</b>								
Revenue	12.2	-7.6	-2.7	-0.7	-20.8	7.5	3.4	-2.6
EBITDA	32.8	-15.8	-53.0	9.0	-33.4	-41.1	19.9	-6.7
PAT	21.6	0.0	-56.8	2.9	-49.8	-62.6	32.1	-11.6
<b>Margin (%)</b>								
EBITDA	24.1	22.0	10.6	11.7	9.8	5.4	6.2	6.0
PAT	11.6	12.5	5.6	5.8	3.7	1.3	1.6	1.5

Source: AceEquity, EISEC Research

**Fig 4: Key Assumptions**

Operating Details	FY18	FY19	FY20P	FY21E	FY22E
<b>Phthalic Anhydride (in mn)</b>	<b>11038</b>	<b>12519</b>	<b>9973</b>	<b>9120</b>	<b>11254</b>
YoY Change (%)	-2%	13%	-20%	-9%	23%
<b>Maleic Anhydride (in mn)</b>	<b>360</b>	<b>415</b>	<b>363</b>	<b>366</b>	<b>574</b>
YoY Change (%)	-	15%	-13%	1%	57%

Source: Company, EISEC Research Estimates, Note: Key assumptions mentioned above are gross revenues

## Financial Statements

Profit & Loss	FY18	FY19	FY20	FY21E	FY22E
<b>YE March (Rs mn)</b>					
Revenues	11,442	13,037	10,586	9,562	12,632
% Growth	10.3	13.9	-18.8	-9.7	32.1
Raw Materials	7,275	9,128	8,172	6,911	8,985
% of sales	63.6	70.0	77.2	72.3	71.1
Employee	558	618	602	718	768
% of sales	4.9	4.7	5.7	7.5	6.1
Other Expenses	936	1,032	1,094	1,148	1,462
% of sales	8.2	7.9	10.3	12.0	11.6
<b>EBITDA</b>	<b>2,673</b>	<b>2,259</b>	<b>718</b>	<b>784</b>	<b>1,416</b>
<b>EBITDA Margin %</b>	<b>23.4</b>	<b>17.3</b>	<b>6.8</b>	<b>8.2</b>	<b>11.2</b>
Depreciation	257	265	299	374	391
<b>EBIT</b>	<b>2416</b>	<b>1994</b>	<b>419</b>	<b>410</b>	<b>1026</b>
Finance cost	149	121	160	169	161
<b>PBT from operatn</b>	<b>2,267</b>	<b>1,873</b>	<b>260</b>	<b>241</b>	<b>865</b>
Other Income	37	77	62	56	74
<b>PBT</b>	<b>2,304</b>	<b>1,950</b>	<b>322</b>	<b>298</b>	<b>939</b>
Tax-Total	843	698	110	101	328
Tax Rate (%)	36.6	35.8	34.3	33.9	34.9
Reported PAT	1,460	1,252	212	197	611
Extraordinary	0	-83	-3	0	0
Minority Interest	0	0	0	0	0
<b>Adjusted PAT</b>	<b>1,460</b>	<b>1,168</b>	<b>209</b>	<b>197</b>	<b>611</b>
<b>PAT Margin</b>	<b>12.8</b>	<b>9.0</b>	<b>2.0</b>	<b>2.1</b>	<b>4.8</b>
% Growth	44.2	-20.0	-82.1	-5.7	210.7

Source: Company, EISEC Research Estimates

Key Ratios	FY18	FY19	FY20	FY21E	FY22E
<b>YE March</b>					
<b>Growth ratios (%)</b>					
Revenue	10	14	-19	-10	32
EBITDA	59	-15	-68	9	81
Adjusted PAT	44	-20	-82	-6	211
<b>Margin Ratios (%)</b>					
EBITDA	23.4	17.3	6.8	8.2	11.2
PBT from operations	19.8	14.4	2.5	2.5	6.8
Adjusted PAT	12.8	9.0	2.0	2.1	4.8
<b>Return Ratios (%)</b>					
ROE	27.7	18.6	3.3	3.1	8.8
ROCE	26.4	16.5	3.9	3.7	8.1
<b>Turnover Ratios (days)</b>					
Gross block turnover ratio (x)	2.9	3.4	2.3	1.5	2.0
Debtors	44	51	49	60	50
Inventory	47	52	42	50	45
Creditors	75	93	89	110	90
Cash conversion cycle	16	10	3	0	5
<b>Solvency Ratio (x)</b>					
Net debt/equity	0.1	0.2	0.2	0.0	0.0
Debt-equity	0.1	0.3	0.3	0.3	0.3
Interest coverage ratio	16	16	3	2	6
Gross debt/EBITDA	0.2	0.8	2.6	2.5	1.3
Current Ratio	1.6	1.7	1.3	2.0	2.2
<b>Per share Ratios (Rs)</b>					
Adjusted EPS	47.4	37.9	6.8	6.4	19.9
BVPS	171	204	205	209	226
Dividend payout %	8.6	10.8	30.1	39.1	17.6
<b>Valuation (x)</b>					
P/E (adjusted)	12.3	12.3	28.2	23.2	7.5
P/BV	3.4	2.3	0.9	0.7	0.7
EV/EBITDA	6.7	6.6	9.9	5.6	2.9
Dividend yield %	0.7	0.9	1.0	1.7	2.4

Source: Company, EISEC Research Estimates

Balance Sheet	FY18	FY19	FY20	FY21E	FY22E
<b>YE March (Rs mn)</b>					
Equity Share Capital	308	308	308	308	308
Reserves & Surplus	4970	5983	6019	6139	6643
<b>Shareholders' Fund</b>	<b>5278</b>	<b>6291</b>	<b>6327</b>	<b>6447</b>	<b>6951</b>
Total loan funds	619	1762	1869	1978	1879
Deferred Tax Liabilities	371	556	629	728	740
Other Non-Current Lia	403	266	240	246	249
<b>Total Liabilities</b>	<b>6671</b>	<b>8875</b>	<b>9065</b>	<b>9399</b>	<b>9819</b>
Net Block	4008	3866	4670	6502	6391
Capital WIP	886	2826	3412	105	62
Goodwill	114	31	26	26	26
Long term Investments	101	1	2	2	2
Other Non-Current Asset	336	287	245	250	321
<b>Total Non-Current Asset</b>	<b>5445</b>	<b>7010</b>	<b>8356</b>	<b>6885</b>	<b>6802</b>
Inventories	944	1294	951	947	1108
Current Investments	407	698	116	407	407
Trade receivables	1388	1828	1433	1572	1730
Cash and cash equivalent	217	363	493	1712	1964
Other current assets	195	358	266	337	383
<b>Total Current Assets</b>	<b>3151</b>	<b>4541</b>	<b>3259</b>	<b>4975</b>	<b>5592</b>
Trade payables	1498	2325	1996	2083	2216
Other current liabilities	419	336	532	352	333
Short term Provisions	8	16	22	26	28
<b>Total Current Liabilities</b>	<b>1925</b>	<b>2676</b>	<b>2550</b>	<b>2461</b>	<b>2576</b>
<b>Net Current Assets</b>	<b>1226</b>	<b>1865</b>	<b>709</b>	<b>2514</b>	<b>3017</b>
<b>Total Assets</b>	<b>6671</b>	<b>8875</b>	<b>9065</b>	<b>9399</b>	<b>9819</b>

Source: Company, EISEC Research Estimates

Cash Flow	FY18	FY19	FY20	FY21E	FY22E
<b>YE March (Rs mn)</b>					
Operating profit before WC changes	2,676	2,113	692	841	1,491
Changes in working capital	-128	-222	221	-193	-307
Tax Paid	-542	-505	-76	-101	-328
<b>Cash flow from operations</b>	<b>2,006</b>	<b>1,386</b>	<b>837</b>	<b>547</b>	<b>856</b>
Adj. OCF (OCF - Interest)	1,857	1,265	677	378	695
Capex	-1,030	-14	-1,195	-2,205	-280
Adj. FCF	827	1,251	-517	-1,828	415
<b>Cash flow from investments</b>	<b>-1,636</b>	<b>-2,158</b>	<b>-1,040</b>	<b>810</b>	<b>-237</b>
<b>Cash flow from financing</b>	<b>-348</b>	<b>583</b>	<b>353</b>	<b>-137</b>	<b>-367</b>
<b>Net change in cash</b>	<b>22</b>	<b>-189</b>	<b>150</b>	<b>1,220</b>	<b>251</b>

Source: Company, EISEC Research Estimates

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#### IG Petrochemicals Ltd.



Source: ACEEquity, EISEC Research

Analyst holding in stock: **NO**

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