

# I G Petrochemicals Ltd.

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

Q1FY21 Revenue of I G Petrochemicals Ltd (IGPL) de-grew by 42.7% YoY to Rs1421mn. This was primarily due to plant shutdown led by COVID-19 and lockdown which impacted the production volume. However, EBITDA margin witnessed expansion of 124bps YoY to 11.0% better than our estimates on the back of sharp increase in spreads of PAN and Orthoxylene. Other expenses stood at 12.9% of sales, up ~45 bps YoY. Overall, EBITDA reported a decline of 35.5% YoY to Rs157mn more or less in line with our estimate of Rs142mn, owing to improvement in gross margins. The company reported one-offs of Rs6.1mn due to impairment in wholly owned subsidiary IGPL (FZE). PAT reported decline of 75.4% YoY to Rs22mn.

### 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 PAN capacity of 53,000 TPA is expected to start commercial production by Q2FY21 and 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.

### Sharp improvement in gross margins led by improvement in spreads

- The company reported gross margin improvement of 585bps to 33.9% in Q1FY21. Improvement in gross margin is majorly a function of improvement in spreads.
- The spread between the ortho-xylene and PAN is currently hovering at \$140-150/ton which was around \$100-110/ton in December 2019, implying a growth of 36% on half yearly 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.
- As discussed in Q4FY20, we believe that spreads had bottomed out and the worst has already been hit when the rock bottom spread of \$60-80/ton was witnessed during Q3FY20.

### Imposition of Countervailing Duty (CVD) is a big positive for the company

- The government of India has imposed CVD of 7.5% for a period of 200 days w.e.f July 2020.
- The investigations are still going on for imposition of ADD post completion of CVD timeline.
- Imposition of duty would help domestic manufacturers to be pricing competitive as compared with imports.

### 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 owing to increased visibility of volume growth, imposition of CVD & import substitution theme and, thereby, arrive at target price of Rs 301 per share which offers 34% upside from current valuations. Therefore, we assign **BUY** rating on the stock.

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net sales	1,421	2,479	-42.7%	2,685	-47.1%
Operating costs	1,264	2,236	-43.5%	2,525	-49.9%
EBITDA	157	243	-35.5%	160	-2.0%
EBITDA Margin (%)	11.0%	9.8%	(124) bps	6.0%	(508) bps
Depreciation	80	79	1.9%	74	7.5%
Interest	42	44	-6.1%	42	-0.1%
Other income	9	20	-54.6%	19	-50.3%
Exceptional	6	0	NA	3	119.0%
PBT	39	141	-72.6%	60	-35.8%
Provision for tax	16	50	-67.6%	20	-20.4%
Reported PAT	22	91	-75.4%	40	-43.7%

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	10,608	0%	976	9.2%	331	58%	10.7	5.0	5.2	20.9	7.1
FY22E	15,128	43%	1,822	12.0%	927	180%	30.1	12.4	11.8	7.5	3.4

Source: Company, EISEC Research Estimates, Historical valuation multiples are based on yearly average market capitalization



East India Securities Ltd  
Excellent | Investment | Solutions

Rating: **BUY** Upside/(Downside): **34%**  
Current Price: **Rs 225** Target Price: **Rs 301**

### | Market data

Bloomberg:	IGPL IN
52-week H/L (Rs):	232 / 81
Mcap (Rs bn/USD bn):	7.0/ 0.09
Shares outstanding (mn):	30.8
Free float:	31.3%
Avg. daily vol. 3mth (3M Avg – in '000):	44
Face Value (Rs):	10
Group:	S&P BSE 500

Source: Bloomberg, EISEC Research

### | Shareholding pattern (%)

	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	68.7	68.7	68.7	68.7
FIIs	0.4	0.3	0.3	0.6
DIIIs	4.8	5.6	5.7	5.2
Public/others	26.1	25.4	25.2	25.5

Source: BSE

### | Price performance (%)\*

	1M	3M	12M	36M
S&P BSE 500	3.9	27.1	4.9	11.0
IGPL	36.6	78.7	31.7	-49.0

\*as on 19<sup>th</sup> Aug 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 has reached 80-85% of pre-lockdown levels. The end user industries like plasticizers, paints and pigments has witnessed gradual uptick in demand.
- **Capacity expansion of PAN and plasticizers:** As discussed in Q4FY20, 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.
- **Sharp improvement in spreads witnessed:** Current spreads (PAN and Ortho-xylene) are hovering at \$140-150/ton. As there was no supply during the lockdown phase, the spreads spiked to levels of \$180-200/ton and subsequently settled at levels of \$140-150/ton. Management believes the current spreads levels are sustainable.
- **Anti-Dumping Duty (ADD):** Management stated that government of India has imposed a Countervailing Duty (CVD) for a period of 200 days effective July 2020. The duty is around 7.5% particularly from imports against South Korea. The investigation is still going on for imposition of ADD post completion of CVD duty timeline.
- **Taxation:** As discussed in Q4FY20, 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.

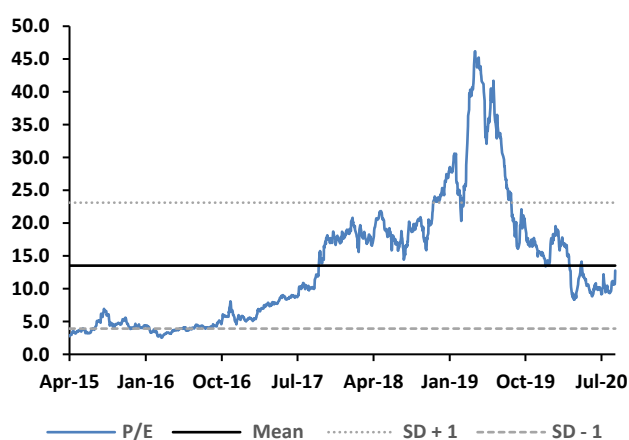
## Valuation and Recommendations

The stock is trading at FY22E P/E of 7.5x and FY22E EV/EBITDA of 3.4x.

We value the stock on a forward P/E multiple of 10x owing to increased visibility of volume growth, imposition of CVD & import substitution theme and, thereby, arrive at target price of Rs 301 per share which offers 34% upside from current valuations. Therefore, we assign **BUY** rating on the stock.

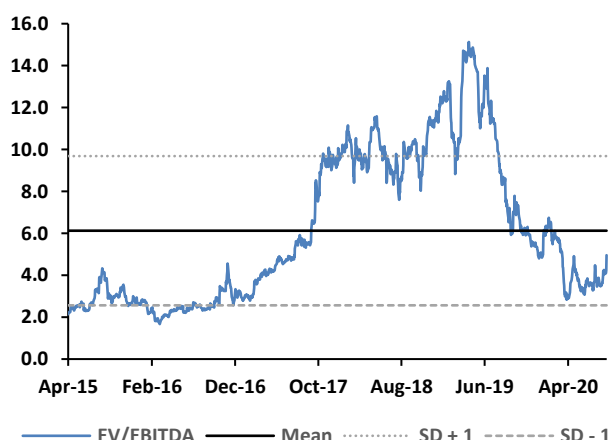
Risk to our call is unforeseen impact on the demand which could impact earnings, increasing the lockdown and substantial volatility in crude oil prices.

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)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Sales</b>	<b>3242</b>	<b>3154</b>	<b>3131</b>	<b>2479</b>	<b>2666</b>	<b>2756</b>	<b>2685</b>	<b>1421</b>
Raw Materials	2067	2415	2384	1783	2069	2174	2145	939
Employee Costs	165	144	146	144	141	154	162	142
Other Expenditure	298	261	236	308	312	256	218	183
<b>EBITDA</b>	<b>713</b>	<b>335</b>	<b>365</b>	<b>243</b>	<b>143</b>	<b>172</b>	<b>160</b>	<b>157</b>
Depreciation	65	68	69	79	73	73	74	80
Interest	48	17	24	44	33	41	42	42
Other Income	17	24	22	20	13	10	19	9
<b>PBT</b>	<b>617</b>	<b>274</b>	<b>293</b>	<b>141</b>	<b>50</b>	<b>68</b>	<b>63</b>	<b>45</b>
Tax	211	99	112	50	17	23	20	16
Tax rate (%)	34	36	38	36	33	34	33	36
<b>Reported PAT</b>	<b>406</b>	<b>176</b>	<b>181</b>	<b>91</b>	<b>34</b>	<b>45</b>	<b>42</b>	<b>28</b>
Exceptional Items	0	0	0	0	0	0	-3	-6
<b>Adjusted PAT</b>	<b>406</b>	<b>176</b>	<b>181</b>	<b>91</b>	<b>34</b>	<b>45</b>	<b>40</b>	<b>22</b>
<b>Y-o-Y Growth (%)</b>								
Revenue	35	7	0	-29	-18	-13	-14	-43
EBITDA	17	-54	-43	-71	-80	-49	-56	-35
PAT	21	-57	-46	-78	-92	-75	-78	-75
<b>Q-o-Q Growth (%)</b>								
Revenue	-8	-3	-1	-21	8	3	-3	-47
EBITDA	-16	-53	9	-33	-41	20	-7	-2
PAT	0	-57	3	-50	-63	32	-12	-44
<b>Margin (%)</b>								
EBITDA	22.0	10.6	11.7	9.8	5.4	6.2	6.0	11.0
PAT	12.5	5.6	5.8	3.7	1.3	1.6	1.5	1.6

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>10261</b>	<b>10195</b>	<b>13787</b>
YoY Change (%)	-2%	13%	-18%	-1%	35%
<b>Maleic Anhydride (in mn)</b>	<b>360</b>	<b>415</b>	<b>363</b>	<b>329</b>	<b>516</b>
YoY Change (%)	-	15%	-13%	-9%	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>					
<b>Revenues</b>	<b>11,442</b>	<b>13,037</b>	<b>10,586</b>	<b>10,608</b>	<b>15,128</b>
% Growth	10.3	13.9	-18.8	0.2	42.6
Raw Materials	7,275	9,128	8,172	7,687	10,889
% of sales	63.6	70.0	77.2	72.5	72.0
Employee	558	618	602	718	768
% of sales	4.9	4.7	5.7	6.8	5.1
Other Expenses	936	1,032	1,094	1,226	1,649
% of sales	8.2	7.9	10.3	11.6	10.9
<b>EBITDA</b>	<b>2,673</b>	<b>2,259</b>	<b>718</b>	<b>976</b>	<b>1,822</b>
<b>EBITDA Margin %</b>	<b>23.4</b>	<b>17.3</b>	<b>6.8</b>	<b>9.2</b>	<b>12.0</b>
Depreciation	257	265	299	374	391
<b>EBIT</b>	<b>2416</b>	<b>1994</b>	<b>419</b>	<b>602</b>	<b>1432</b>
Finance cost	149	121	160	133	70
<b>PBT from operatn</b>	<b>2,267</b>	<b>1,873</b>	<b>260</b>	<b>470</b>	<b>1,362</b>
Other Income	37	77	62	42	61
<b>PBT</b>	<b>2,304</b>	<b>1,950</b>	<b>322</b>	<b>512</b>	<b>1,422</b>
Tax-Total	843	698	110	175	495
Tax Rate (%)	36.6	35.8	34.3	34.2	34.8
Reported PAT	<b>1,460</b>	<b>1,252</b>	<b>212</b>	<b>337</b>	<b>927</b>
Extraordinary	0	-83	-3	-6	0
Minority Interest	0	0	0	0	0
<b>Adjusted PAT</b>	<b>1,460</b>	<b>1,168</b>	<b>209</b>	<b>331</b>	<b>927</b>
<b>PAT Margin</b>	<b>12.8</b>	<b>9.0</b>	<b>2.0</b>	<b>3.1</b>	<b>6.1</b>
% Growth	44.2	-20.0	-82.1	58.5	180.3

Source: Company, EISEC Research Estimates

Key Ratios	FY18	FY19	FY20	FY21E	FY22E
<b>YE March</b>					
<b>Growth ratios (%)</b>					
Revenue	10	14	-19	0	43
EBITDA	59	-15	-68	36	87
Adjusted PAT	44	-20	-82	58	180
<b>Margin Ratios (%)</b>					
EBITDA	23.4	17.3	6.8	9.2	12.0
PBT from operations	19.8	14.4	2.5	4.4	9.0
Adjusted PAT	12.8	9.0	2.0	3.1	6.1
<b>Return Ratios (%)</b>					
ROE	27.7	18.6	3.3	5.0	12.4
ROCE	25.3	16.0	3.7	5.1	11.4
<b>Turnover Ratios (days)</b>					
Gross block turnover ratio (x)	2.9	3.4	2.3	1.6	2.4
Debtors	44	51	49	60	50
Inventory	47	52	42	55	45
Creditors	75	93	89	105	90
Cash conversion cycle	16	10	3	10	5
<b>Solvency Ratio (x)</b>					
Net debt/equity	0.1	0.3	0.3	0.1	0.0
Debt-equity	0.2	0.3	0.4	0.3	0.1
Interest coverage ratio	16	16	3	5	21
Gross debt/EBITDA	0.3	0.9	3.2	1.8	0.5
Current Ratio	1.9	1.9	1.5	2.0	1.9
<b>Per share Ratios (Rs)</b>					
Adjusted EPS	47.4	37.9	6.8	10.7	30.1
BVPS	171	204	205	215	243
Dividend payout %	8.6	10.8	30.1	9.3	6.6
<b>Valuation (x)</b>					
P/E (adjusted)	12.3	12.3	28.2	20.9	7.5
P/BV	3.4	2.3	0.9	1.0	0.9
EV/EBITDA	6.7	6.6	9.9	7.1	3.4
Dividend yield %	0.7	0.9	1.0	0.4	0.9

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	6325	7191
<b>Shareholders' Fund</b>	<b>5278</b>	<b>6291</b>	<b>6327</b>	<b>6633</b>	<b>7499</b>
Total loan funds	867	2001	2300	1755	1000
Deferred Tax Liabilities	371	556	629	728	740
Other Non-Current Lia	403	266	240	246	249
<b>Total Liabilities</b>	<b>6919</b>	<b>9114</b>	<b>9496</b>	<b>9363</b>	<b>9488</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	322	519
<b>Total Non-Current Asset</b>	<b>5445</b>	<b>7010</b>	<b>8356</b>	<b>6957</b>	<b>7000</b>
Inventories	944	1294	951	1158	1342
Current Investments	407	698	116	407	407
Trade receivables	1388	1828	1433	1744	2072
Cash and cash equivalent	217	363	493	1054	1029
Other current assets	195	358	266	351	417
<b>Total Current Assets</b>	<b>3151</b>	<b>4541</b>	<b>3259</b>	<b>4715</b>	<b>5268</b>
Trade payables	1498	2325	1996	2211	2685
Other current liabilities	170	97	101	71	68
Short term Provisions	8	16	22	26	28
<b>Total Current Liabilities</b>	<b>1677</b>	<b>2437</b>	<b>2119</b>	<b>2309</b>	<b>2780</b>
<b>Net Current Assets</b>	<b>1474</b>	<b>2104</b>	<b>1140</b>	<b>2406</b>	<b>2488</b>
<b>Total Assets</b>	<b>6919</b>	<b>9114</b>	<b>9496</b>	<b>9363</b>	<b>9488</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	1,019	1,883
Changes in working capital	-128	-222	221	-533	-345
Tax Paid	-542	-505	-76	-175	-495
<b>Cash flow from operations</b>	<b>2,006</b>	<b>1,386</b>	<b>837</b>	<b>310</b>	<b>1,043</b>
Adj. OCF (OCF - Interest)	1,857	1,265	677	178	973
Capex	-1,030	-14	-1,195	-2,205	-280
Adj. FCF	827	1,251	-517	-2,028	693
<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>-558</b>	<b>-831</b>
<b>Net change in cash</b>	<b>22</b>	<b>-189</b>	<b>150</b>	<b>562</b>	<b>-26</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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